



**Government of Tonga**

**BUDGET STATEMENT**  
FOR THE YEAR 2000/2001

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HON. K. T. FAKAFANUA  
MINISTER OF FINANCE



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**ACRONYMS AND ABBREVIATIONS**

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GDP	Gross Domestic Product
MOE	Ministry of Education
MOF	Ministry of Finance
MLCI	Ministry of Labour, Commerce and Industry
SPC	South Pacific Commission
MFPD	Macroeconomic Fiscal Policy Division

MAF	Ministry of Agriculture and Forestry
SPARTECA	South Pacific and Regional Technical and Economic Co-operation Agreement
CPI	Consumer Price Index
OET	Overseas Exchange Transaction
NRBT	National Reserve Bank of Tonga
Qrt or qrt	Quarter
REER	Real Effective Exchange Rate
OECD	Organisation for Economic Co-operation and Development
OFR	Official foreign reserves
NEER	Nominal Effective Exchange Rates
I/Cover	Monthly Import coverage
DMCs	developing member country of ADB
GFS	Government Finance Statistics
DOD	Disbursement Outstanding Debt
NZ	New Zealand
USA	United States of America

## **Section 1: Introduction**

1.0. Tonga's growth potential has been kept low by constraints such as narrow resource base, remote location, small domestic market, and vulnerability to natural calamities. Nevertheless, Tonga has achieved a progressive level of social and economic development.

1.1. The Tongan economy has achieved an average growth rate of 2.8% in the last 6 years. This is an improvement compared to the perform experienced in the past five years. The 1999/2000 is estimated to have an economic growth of 6.1% (real term). This is an increased from 4.6% recorded in 1998/99. The economy is projected to continue to grow by 2% in 2000/2001. There is a potential for further growth in the economy. Therefore, there is a need to increase the efficiency, effectiveness and dynamic of the local economy in order to compete successfully in and realise the potential benefit from the growing globalisation.

1.2. The fiscal policy for 2000/2001 will focus at enhancing the positive economic performance that has been achieved in the past five years.

1.3 The government will undertake a programme loan from Asian Development Bank in 2000/2001. This programme is intended to encourage private sector-led economic growth through the creation of a policy environment conducive to increase investment and employment, and to improve the efficiency and effectiveness of services delivery by the public sector. This program will also focus on reviewing the current capacity of government civil services and the remuneration system. It is vital for government and country at large to employ and maintain a competent and a high quality civil servants. However, an interim Cost of Living Allowance of 20% will be granted in 2000/2001 with 10% to be awarded from July 1<sup>st</sup>, 2000 and the other 10% to be awarded from January 1<sup>st</sup> 2001.

1.4 The Budget Statement is divided into seven sections. Section one is the introduction, followed by the national vision in section 2, review of the economy in section 3, medium terms and strategy in section 4, specific fiscal strategy and policy in section 5, the 2000/2001 programme budget estimates appropriation in section 6 with the conclusion in section 7.



## **Section 2: The National Vision**

### **2.0 Overall National Objectives**

The overarching national objective is to accelerate the rate of economic growth and development in order to achieve a higher standard of living and quality of life for all people of Tonga. (Refer to appendix 1 for specific outline of the national vision).

### **2.1 Central Role of Government**

The principal function of Government is to ensure that:

- a) law, order and national security are maintained
- b) infrastructures that facilitate optimal development are available in good quality and accessible to all;
- c) provide services, particularly health and education, that are of highest quality and accessible to all;
- d) develop policy that is appropriate and conducive to the development of all sectors of society, particularly the private sector;
- e) ensure that the public sector does not crowd out the private sector.

## **Section 3: Review of the Economy**

### **3.0 Global Economy**

3.0.1 The IMF world economic outlook of October 1999 reported that global economic and financial conditions have improved markedly after the turbulence in emerging markets in 1997/98, which gave rise to fears of a widespread credit crunch and global recession. Most of the economies recently in crisis have begun to recover. But many challenges remain to be addressed to ensure that these recoveries are sustainable and to foster stronger and more stable growth in the world economy in the next decade.

3.0.2 There is particular reason for concern about the unbalanced pattern of growth observed recently among the major industrial countries and about the economic and the financial consequences world-wide if the eventual demand slowdown in the United State turns out to be sharper than is generally expected at the present.

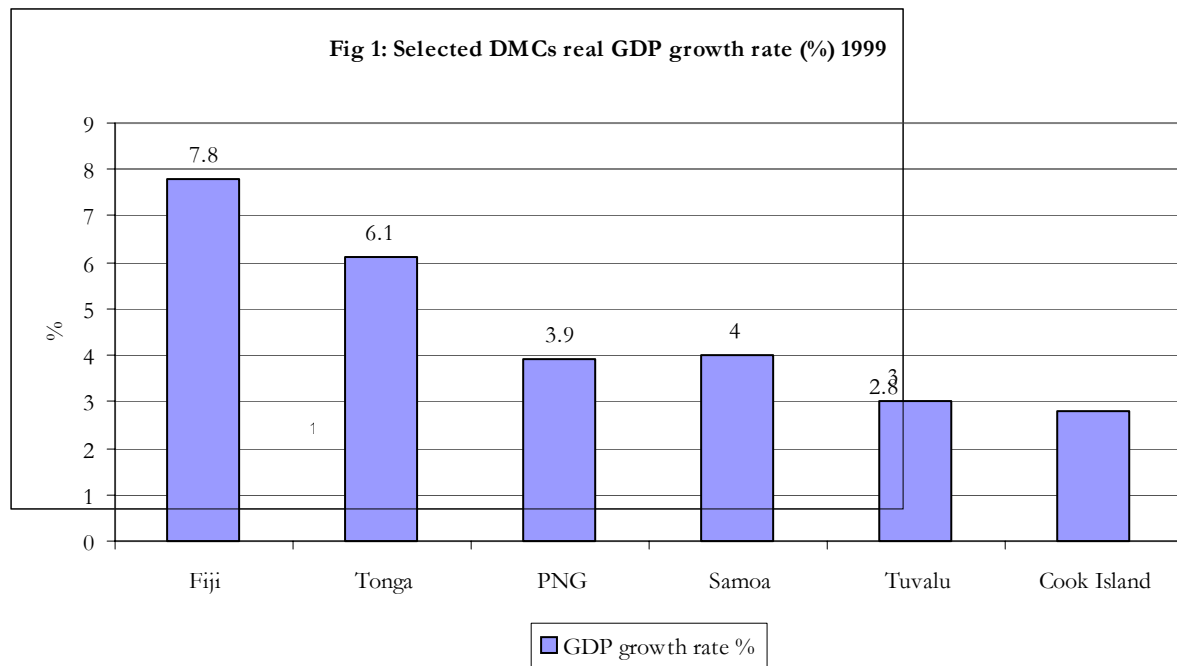
3.0.3 The world output was estimated to increase from 3.0 per cent in 1999 to 3.5 per cent in 2000.

3.0.4 While most of the world economic crisis does not feed directly into the economy of Tonga it is still a concern because such crisis will have an impact on the trading partners of this country. The repercussion effect will be the slowdown in exports as well as the possible decline in the foreign reserves.

3.0.5 The recent performance of Tonga major trading partners has been mixed. The Australian and the New Zealand economies were expected to grow by 4.8 per cent and 2.6 per cent respectively in 1999. The US economy was projected to grow by an annualise rate of 4.5 per cent in 1999. During 1999 the Japanese economy grew by a stronger than expected of 1.9 per cent. The outlook for global inflation is expected to be 5.8 per cent.

**3.2 Regional economy**

3.2.0 ADB reported that real GDP growth for the developing member countries (DMCs) increased by a weighted average of 4.4 per cent for the 1999 calendar year,



*(Source: ADB annual reports 1999)*

compared with 1.2 per cent in 1998 and negative 3.2 per cent in 1997. After a falling by a cumulative 3.0 per cent in 1997/98, real GDP increased by an estimated 7.8 per cent in 1999 (see fig 1). The economic rebound largely reflected the recovery in the sugar industry and supported by the tourism industry, clothing, gold, and footwear. PNG on the other hand, estimated a real GDP growth of 3.9 per cent, despite suffering the effects of economic management.

3.2.1 The average inflation rates for the DMCs rose to 9.9 per cent, compared with 8.1 per cent in 1998. The overall balance of payment position improved for most countries, and fiscal and monetary policy settings generally were consistent with the maintenance of macroeconomic stability. Fig 1 shows the economic growth for selected DMCs in 1999.

<sup>1</sup> *Tonga estimated Real GDP Growth for 1999/2000*

### 3.3 Domestic economy

3.3.0 Tonga's GDP per capita places it in the Low Middle-Income group of in countries. However, social indicators are more closely aligned to those of an upper income countries. Infant mortality rates are around 15 per thousand live births in 1998 and life expectancy was approaching 70 years (see table 1). The gross enrolment ratio showed that the age group 5-19 years of age is 83 per cent received formal education in Tonga. The official average income per capita for 1997/98 was estimated to be T\$2,250, T\$2,457 in 1998/1999 and T\$2,535 in 1999/2000 with an extrapolated population of 99,059. The human poverty index illustrated the quality of development in selected DMCs (see table 1), where Tonga has a relatively high standard.

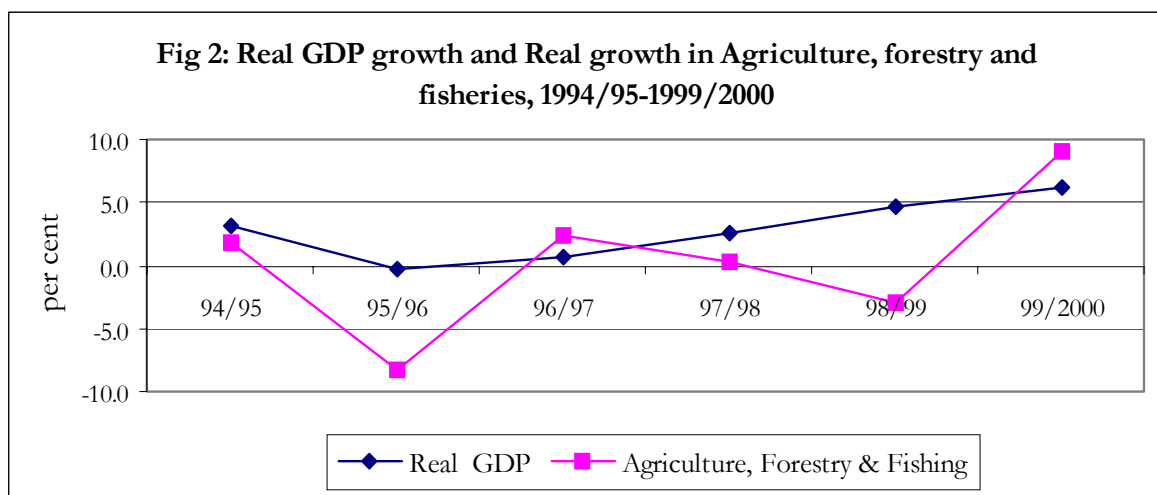
**Table 1: Human Poverty Index for 1999**

Country	GDP per capita (\$US)	Adult literacy	Gross enrolment ratio	Infant Mortality (per 000)
Fiji	2,684	93	81	16
Vanuatu	1,231	34	57	45
Nauru	3,450	95	80	11
FSM	2,070	71	71	46
Cook Island	4,947	93	85	13
Samoa	1,060	96	86	22
Tonga	1,543	99	83	8

(Sources: Statistic Department, SPC-Population demography programme & UNDP-Pacific Human Development Report 1999)

### 3.4 Economic Growth

3.4.0 The economy starts the new millennium with a strong economic growth after the economic downturn in 1995/96. It is noted that the economic growth does not follow the trend set forth by the primary sector as it has been observed over the years (see fig 2). However, the contribution from the secondary and the tertiary sector buoyed the economy while the primary sector suffer through natural disasters and price fluctuation in the international market.



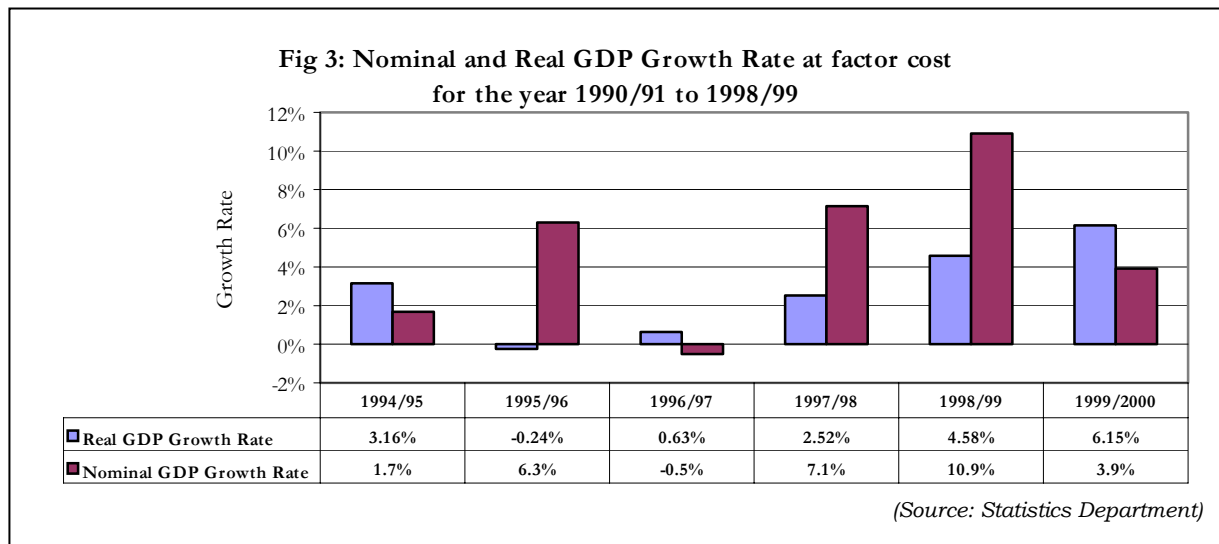
(Source: Statistics Department)

**3.4.1 Nominal GDP**

3.4.1.0 Nominal GDP at market price for 1999/2000 showed an overall growth of 3.5 per cent compared with 9.6 per cent growth in the previous financial year.

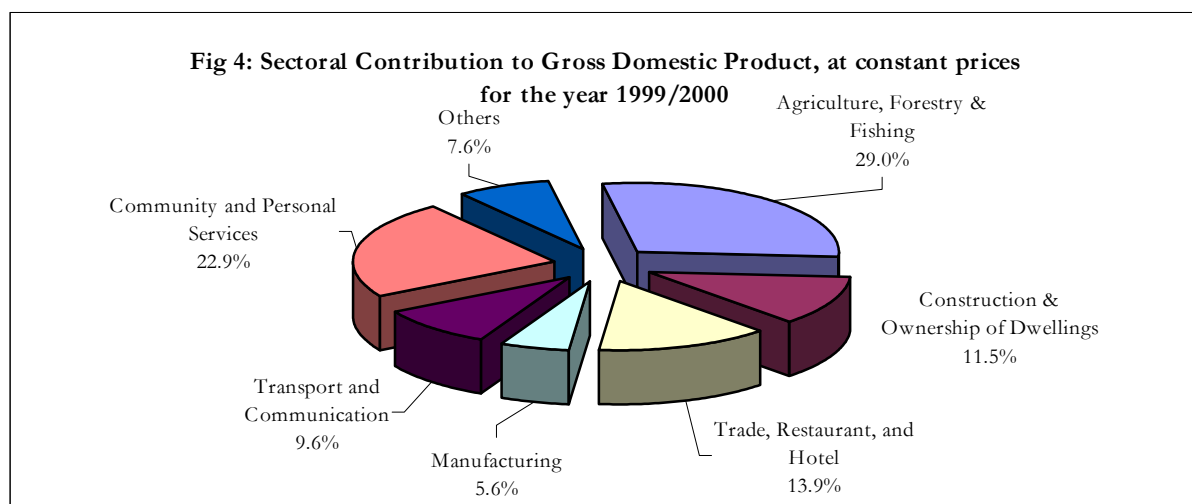
**3.4.2 Real GDP**

3.4.2.0. The revision of the real GDP by the Statistics Department shows that 1999/2000 financial year will record the most favourable growth of 6.1% for the last



five years (see fig 3). The 6.1% growth rate for 2000/2001 is attributed to growth in the following sectors: electricity & water 22.7%, commerce, hotel & restaurant 17.4%, imputed bank service charge 13.8, agriculture, forestry & fisheries 9.0%, manufacturing 8.4% and transport & communication 8.4%. It certainly shows a very strong sign of an economic growth that has been sustained since 1995/96.

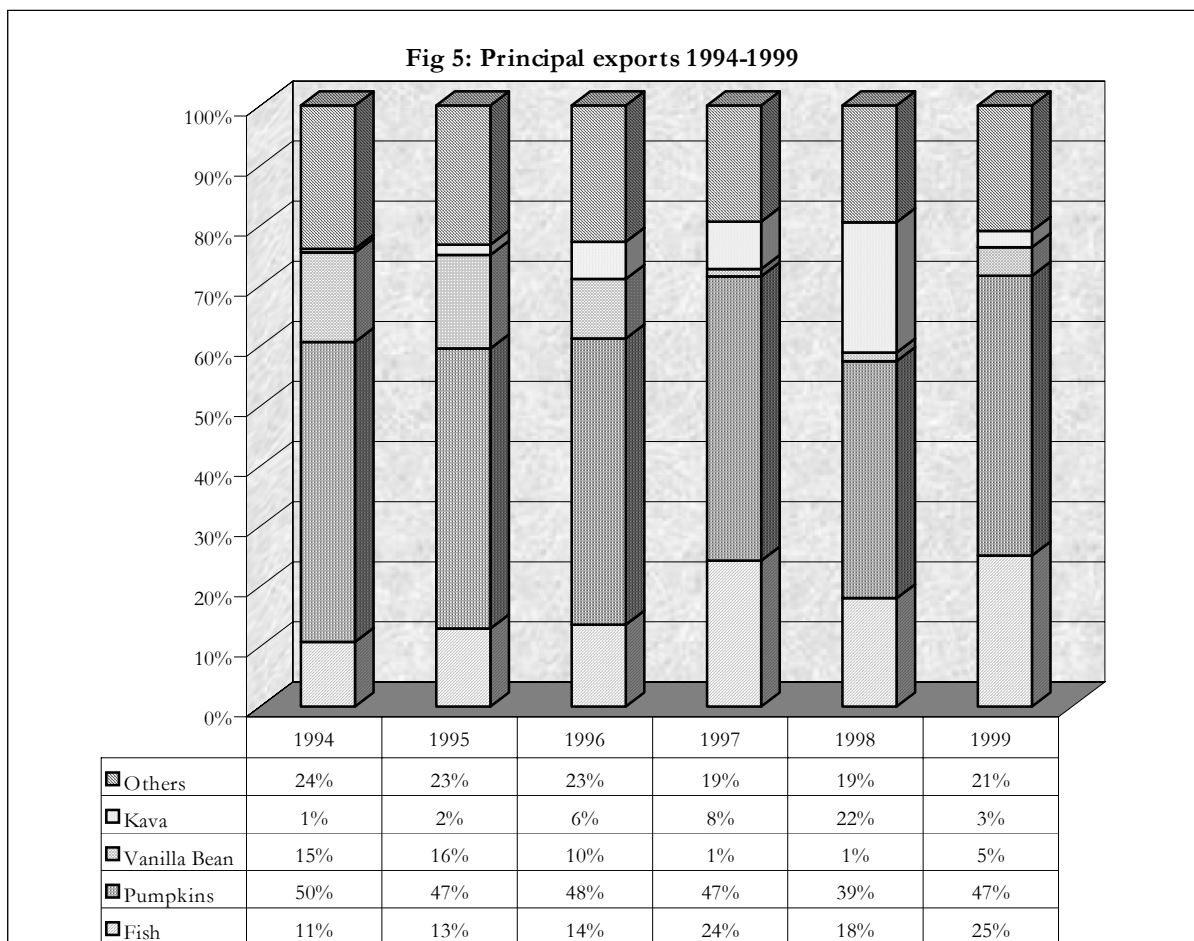
3.4.2.1. The main sectors that contribute to the Tongan economy are depicted in Figure 4 below.



(Source: Statistic Department)

### 3.4.3 Agriculture

3.4.3.0 Agriculture, Forestry and Fisheries still remain the most important industry contributing \$57.7 million in constant prices or 29 per cent of GDP at factor cost (see fig 2) in 1999/2000. The agriculture share in GDP shows an improvement of 2.1 per cent from 23.4 per cent recorded in 1998/99. Squash is still the highest earning crops with \$8.9 million, followed by fish \$4.8 million and nonu \$1.3 million. Exports for vanilla and kava in 1999 were \$0.9 million and \$0.5 million, respectively.

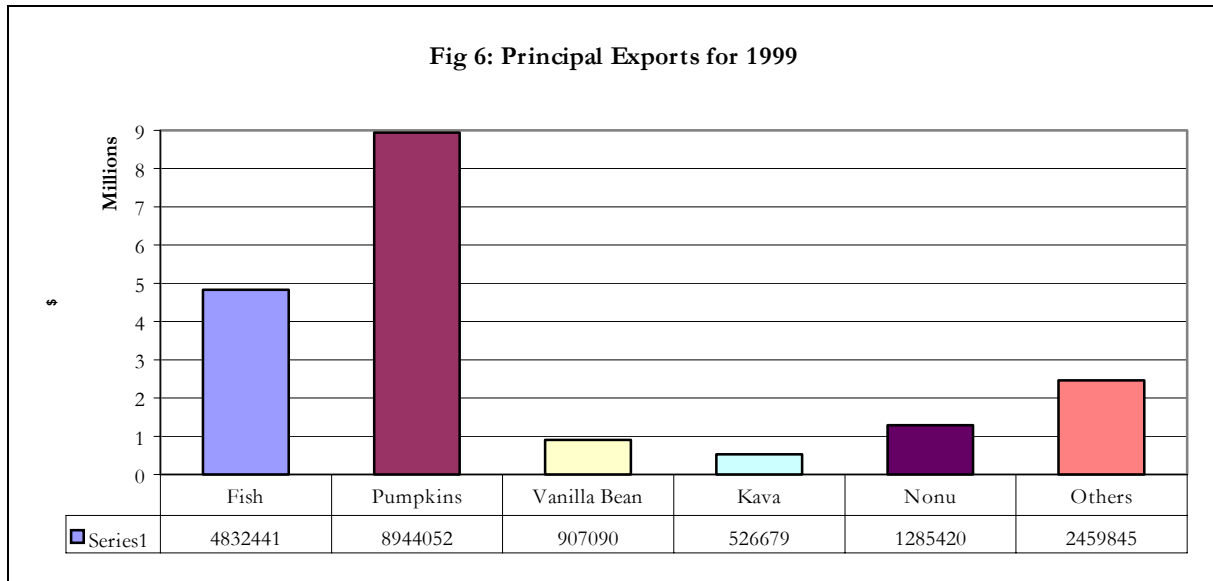


(Source: Statistic Department)

### 3.4.4 Manufacturing

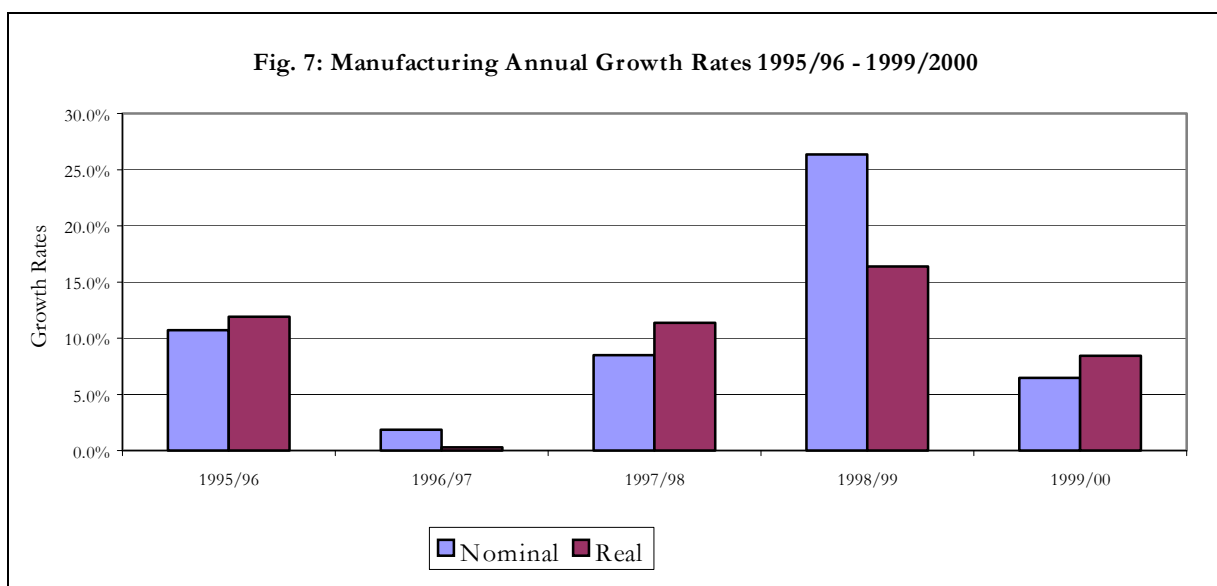
3.4.4.0 In the first quarter of 1999 a new medium size garment factory was opened for business in Nuku'alofa, employing ten people with an aim to cater for domestic demand and to export to Fiji and the New Zealand markets in the near future. It is also important to note the increasing contribution of the Kava and Nonu industries to this sector.

3.4.4.1 Figure 5 illustrates the main export commodities for 1999.



(Source: Statistic Department)

Figure 6 shows the principal commodities exported in 1999. The manufacturing annual growth rate from 1995/96 to 1999/2000 is depicted in figure 7.

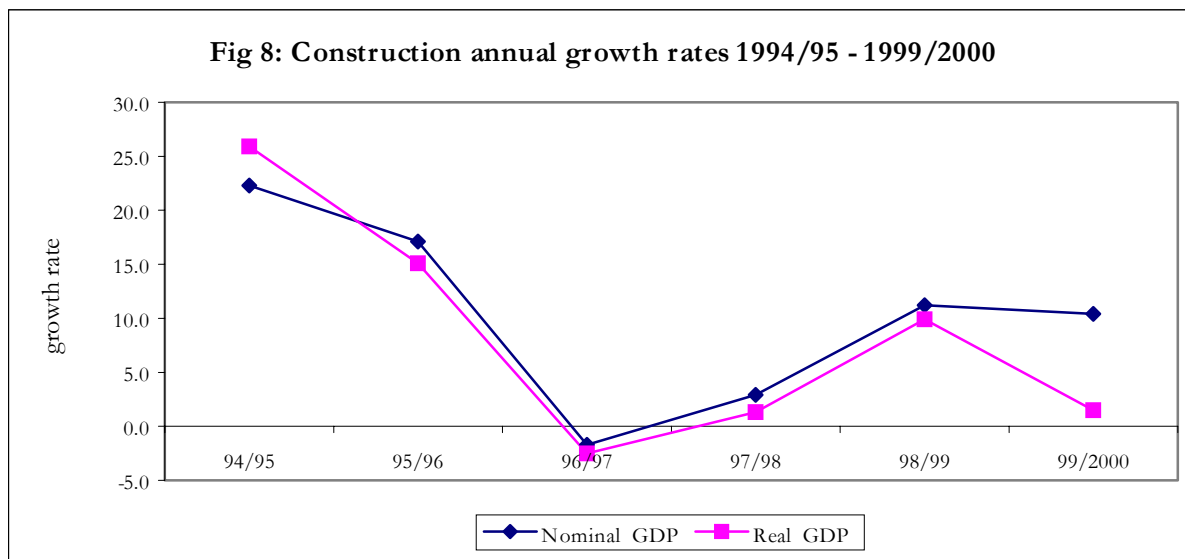


Source: Statistics Department

### 3.4.5 Construction

3.4.5.0 In 1999 some major projects were completed, including the National Council of Churches centre, the Nafanua market in ‘Eua, estimated at \$0.9 million and \$0.5 million respectively, the Wesleyan Church Administration centre, school buildings for the Niua’s funded by the New Zealand government, and a business centre for Tupou High School. A huge investment also involved in the sector’s infrastructure projects in Vava’u, which include a new customs and marketing

buildings, improvement of the urban water drainage and the wharf, and the reconstruction of the roads in Neiafu.



*(Source: Statistics Department)*

### **3.4.6 Tourism**

3.4.6.0 The first quarter of every fiscal year usually recorded the highest number of visitors arrive in the kingdom. During 1999/2000, 11,193 tourists arrived in the Kingdom. This reflects various events that always take place during the period including the Heilala week festival. The value added estimated for accommodations are based on the number of people visiting the kingdom. This number of people is expected to increase by 20 per cent at the end of this fiscal year.

### **3.4.7 Electricity and water**

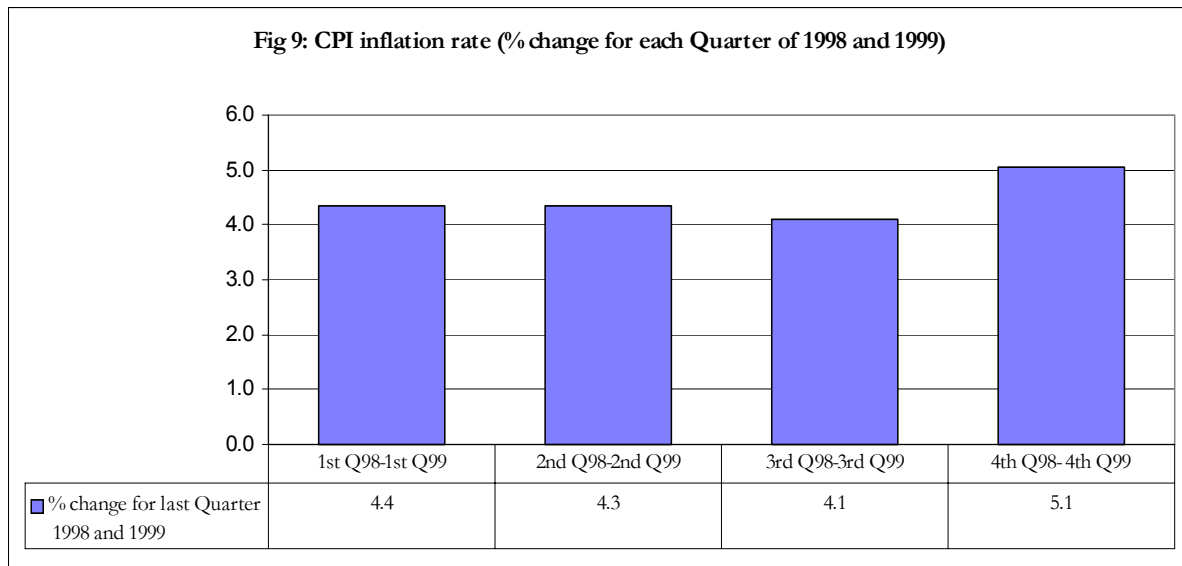
3.4.7.0 The nominal value added of this industry is expected to record its second year of improvement after two consecutive years of decline by 7.8 per cent and 5.1 per cent in 1996/97 and 1997/98, respectively. The nominal growth of 3.8 per cent is estimated for 1999/2000 after a minor improvement of 0.3 per cent during 1998/99. In real terms, value added for electricity and water moved in the same direction as its nominal value. It is expected that there will be a more favourable growth of 22.7 per cent in real terms, consolidating the improvement of 10.8 per cent in 1998/99 after the negative growth in the previous two years.

## **3.5 Domestic Price Development**

### **3.5.0 Inflation**

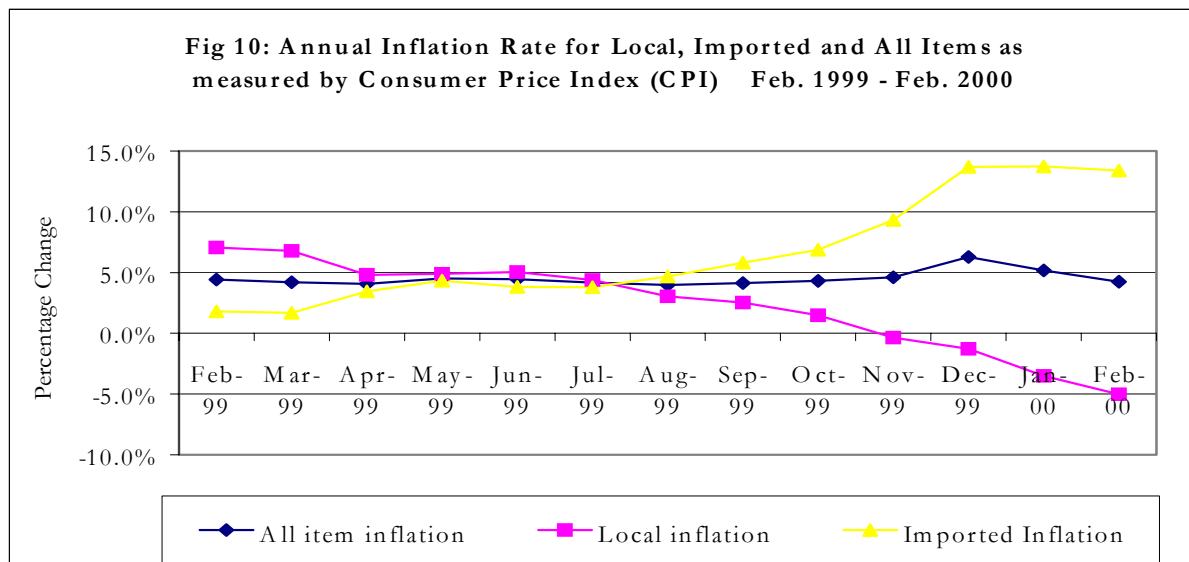
3.5.0.1 The inflation rate has increased from 1.9% in 1996/97 to 4.4% in 1998/99 because of the drought and several natural disasters. The percentage change in inflation rate from March 1999 to March 2000 shows an increase by 0.5% from 4.2% to 4.7% respectively. This was caused by increasing in the imported component of

inflation. Since March 1999 the imported component of inflation shows an increasing trend while the local inflation declined. The movement of



(Source: Statistics department)

inflation on a monthly basis since February 1999 to February 2000 is shown in figure 10. The inflation rate for the first quarter of 1999/2000 was 4.1, a slight decrease from the 4.3 registered for the last quarter of 1998/99 (see fig 9). The rate of change in inflation on a quarterly basis is shown in fig 9.

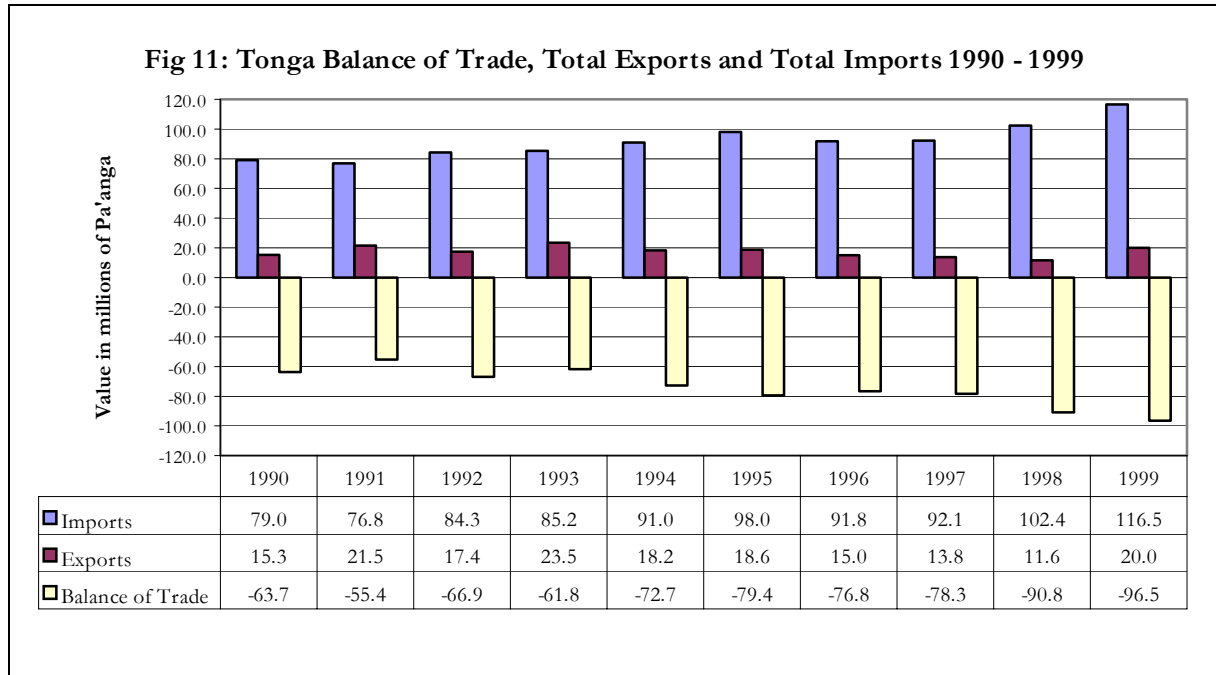


(Source: Statistics Department)

### 3.6 External Sector Development

3.6.0 The balance of payments account for 1992/93-1998/99 is produced in Appendix 2.





(Source: Statistic Department)

### 3.6.1 Exports

3.6.1.0 Total exports for 1999 were increased by 42.17% from \$11.6 million in 1998 to \$20 million in 1999. The increase in exports come mainly from the squash industry (47%), fish (35%), Vanilla beans (5%), Kava (3%) and others (21%).

### 3.6.2 Imports

3.6.2.0 Total imports were increased by 12.9% from \$102.4 million in 1998 to \$116.5 million deficit in 1999. The main increase in imports were food and live animals (\$28.3 million), machinery and transport equipment (\$20.5 million), manufactured goods (\$20.0 millions), fuels and lubricants \$14.9 millions (see appendix 3).

### 3.6.3 Trade Balance

3.6.3.0 Trade balance for 1999 was increased by 5.86% from \$90.8 million deficit in 1998 to \$96.5 million deficit in 1999. Japan is Tongas' most important trading partner for export (\$11.8 million), followed by USA (\$3.8 million) and then New Zealand with \$1.3 million. Tonga major trading partner in import was New Zealand (34.1%) and Australia (28.1%), followed by USA with 12.8% and Fiji with 9.9% (see appendix 4).

### 3.6.4 Monetary Policy

3.6.4.0 The monetary policy for 1999 was aiming to stimulate economic activity while ensuring the stability of the financial system.

### 3.6.5 Money and Credit

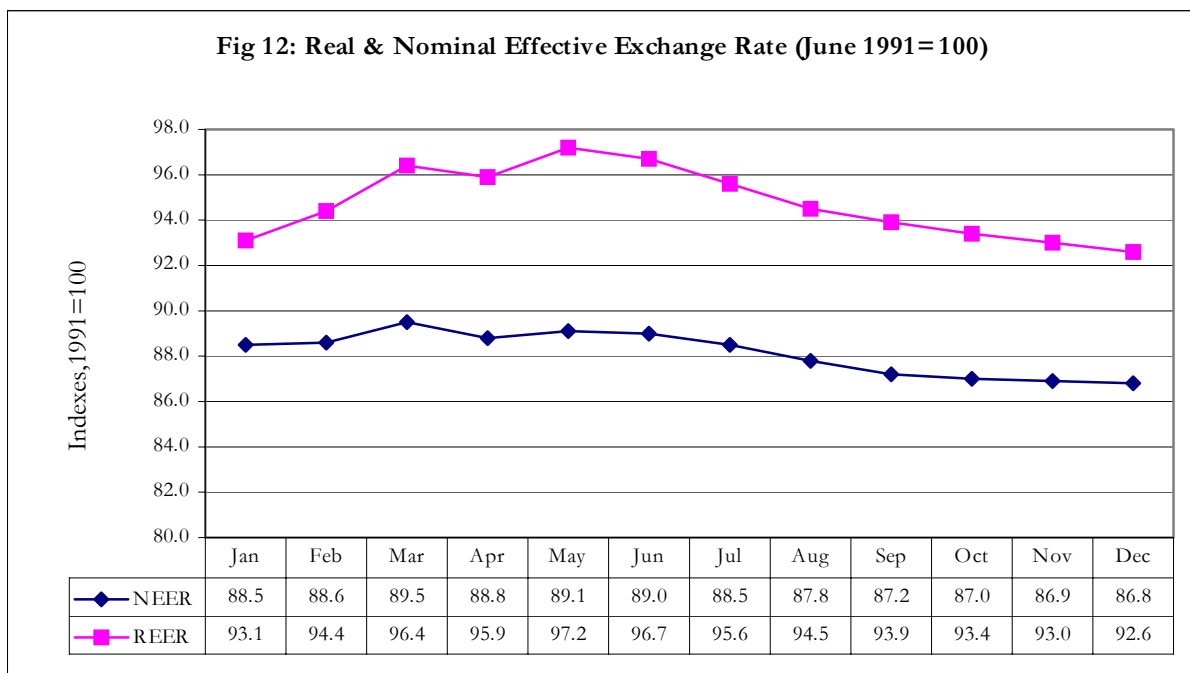
3.6.5.0 Money supply for the last quarter of 1999 (M2) was increased by \$3.7 million or 3.8% to \$101.9 million. The increase in M2 during the quarter was largely due to an expansion in private sector credit. The average annual growth for the year was 9.7 per cent.

### 3.6.6 Interest Rate

3.6.6.0 The average published interest rate on saving deposits for 1999 remained unchanged at 3.58%. However, the commercial bank's published lending interest rates was in the range of 9-10%. The published interest rate for the housing loans remained at the minimum of 10% and maximum of 12%. The spread between selected interest rates on deposit and selected interest rates on bank lending was 4.4 per cent in the last quarter of 1999.

### 3.6.7 Exchange rate

3.6.7.0 The first quarter of 1999/2000 financial year saw the nominal effective exchange rate (NEER) level depreciated by 2.0 per cent from the last quarter of 1998/99. Thus, the value of the Pa'anga dropped against the Australian dollar, the US dollar and the Japanese yen. However by the end of the second quarter of the current financial year Nominal Effective Exchange Rate (NEER) depreciated by 0.5 per cent from the previous quarter and by 2.7 per cent from the level achieved in 1998/99 – second quarter.

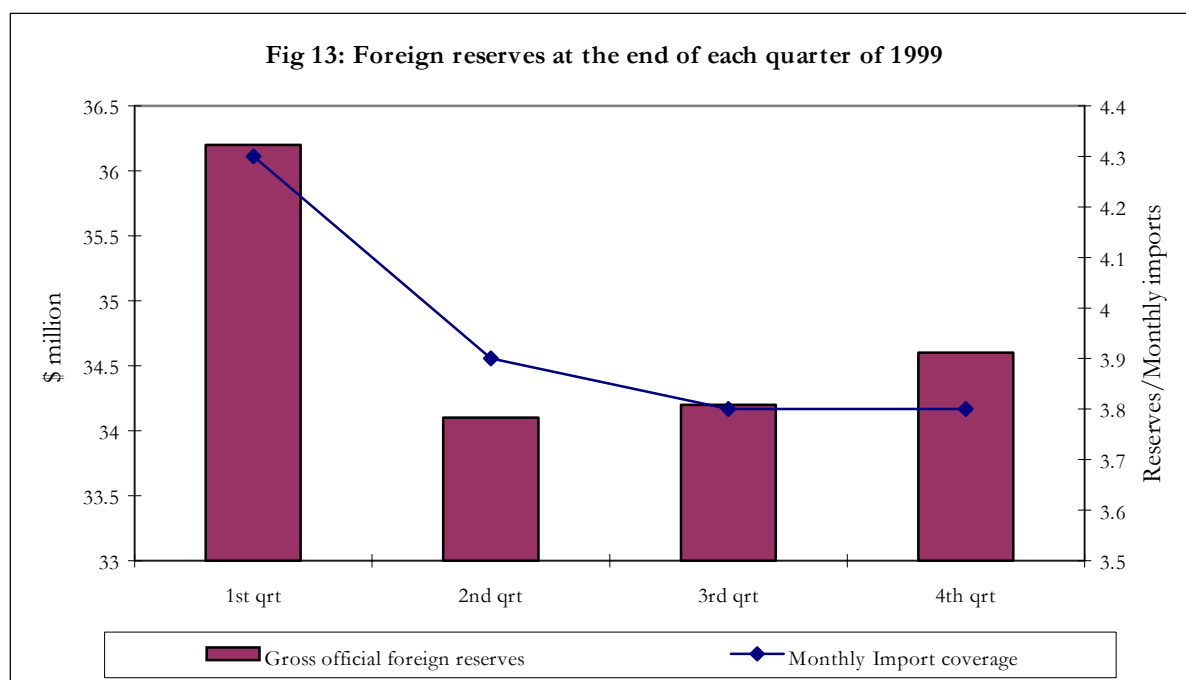


(Source: National Reserve Bank of Tonga)

3.6.7.1 At the end of the first quarter of 1999/2000, the Real Effective Exchange Rate (REER) depreciated by 2.9 per cent over the level of the last quarter of 1998/99. The depreciation of the REER implies an improvement in Tonga’s external competitiveness relative to its major trading partners. The second quarter of 1999/2000 recorded a depreciation of 0.3 per cent over the level of a year ago. On a quarterly basis REER depreciated by 1.4 per cent over the level of the first quarter.

**3.6.8 Gross Foreign Reserves**

3.6.8.0 The first quarter of 1999 started off on a high as gross official foreign reserves recorded a \$36.2 million with import coverage of 4.3 months. However, there was a slight decrease in the second quarter, recording a \$34.1 million with import coverage of 3.9 months (see fig 9). At the end of the June 1999 quarter, the gross foreign reserves decreased to \$34.1 million from \$36.2 million at the end of the March quarter. This represents a \$12.8 million year on year improvement from the \$21.3 million recorded at the end of the second quarter 1998. In the last quarter of 1998 total foreign reserves stood at \$34 million with import coverage of 3.9 months. In December 1999 foreign reserves increased marginally to \$34.6 million from \$34.2 million at the end of September quarter.



*(Source: National Reserve Bank of Tonga)*

## **Section 4: Medium Term Vision and Strategy**

4.0 Sets of practical visions are established to pursue in the medium term, and then strategy and broad policy measures to guide the annual budget policies. Specific operational budget strategy and policy will then be programmed and sequenced according to the set medium term strategy and visions.

### **4.1 Medium Term Vision**

4.1.0 The medium term visions for the year 2002/2003 are:

- a) the rate of economic growth approaches the double-digit figure;
- b) government services will be reviewed to improve delivery and refocused on the core functions of government;
- c) fiscal deficit is limited to less than 1% of GDP;
- d) the level of foreign exchange reserves returns to a reasonable level; and
- e) increase funding resources in priority sectors.

### **4.2 Medium Term Objectives and Strategy**

4.2.0. To achieve the above medium term visions, the following objectives and supporting strategy are proposed to be implemented during the three-year period 2000/2001 – 2002/2003.

a) Revive the economy and encourage the expansion of the private sector by reducing the tariff burden on raw materials and inputs to domestic production. The basic approach are:

- gradually remove the import duties and port & services taxes on raw materials and inputs to domestic production in order to reduce the production cost of business and thus stimulate business growth: and
- gradually broaden the tax base and adjust the tax rate on sales of goods and services in order to meet the revenue demand of Government. The impact of the proposed tax reform on the economy, government finance, industries and household is being carried out. Several consultations with various stakeholders have been made. The consultation process will continue with a view to develop a new tax system that is suitable for Tonga.

b) Right-size the Government and reduce the tax burden by rationalizing the government services. The basic approach is to continue to:

- refocus the Government services on the core functions of the Government;
- schedule the rationalization of the public service to be completed within a set timetable and hive off the commercial services that can be effectively carried out by the private sector as well as closing down unproductive commercial services;

- improve the efficiency in revenue collection. The Ministry of Finance Revenue Departments are being reviewed with the assistance from AusAid to strengthen the capacity of the institution and human resource to improve tax compliance. A Harmonized custom tariff classification has been implemented since February 2000.
  - improve the management of financial and physical resources; and improve the cost effectiveness of expenditure through the programme budget performance framework.
  - monitor the Government debt position in order to avoid fiscal crisis and macroeconomic instability.
- c) Maximize the level of foreign exchange reserves. The basic approach is to:
- facilitate the private sector's export production and diversification with the necessary credits and needed infrastructures. The 2000/2001 is allocating \$100,000 for export diversification fund to be supplemented by other donors.
  - co-ordinate export production and marketing and ensure that related information is effectively disseminated to the private sector.
  - strengthen banking supervision to ensure that banks fully comply with the enforced monetary policy and regulations.
  - adjust as appropriate the monetary policy regime so as to encourage the productive imports and economic growth.
  - monitor the bank lending for personal and housing purposes in order to avoid the unnecessary surge of imports.

## ***Section 5: Specific strategy and policy for the 2000/2001 budget.***

5.0 The Government will implement the following specific policy in 2000/2001 in order to meet the medium term vision set out above.

### **5.1 Fiscal Policy**

5.1.0 The Fiscal Policy for 2000/2001 still continues to maintain a balance budget. This is to ensure that the public debt is within a sustainable level. However, debt financing is broadly applied for vital and key strategic area of investments for national development.

**5.1.1 Expenditure Policy.**

5.1.1.0. Guided by fiscal balance policy, fiscal management will be tightened to ensure that all ministries and departments are working together to achieve their core responsibility in an effective and efficient way. The total expenditure is determined by revenue that is available.

**5.1.2 Revenue Policy.**

5.1.2.0 The revenue policy will be to increase fees on government services in order to keep in line with inflation and recovery of cost, to improve the efficiency of utilisation of resources and provision of better facilities for public services. The existing tax regime is being reviewed. The impact of conceivable options in the economy is being assessed.

**5.2. Specific Sectoral Strategy.**

**5.2.1 Agriculture and Forestry Sector.**

5.2.1.0 The Agriculture sector is and will continue to be the mainstay of the Tongan economy. The main emphasis of this sector will be the:

- development of the existing crops to increase production.
- diversification into new products to meet the demand for both domestic and overseas market, and
- development of livestock and forestry.

5.2.1.1 The main features of the agriculture budget are:

- The total allocation for agriculture in 2000/2001 is increased from \$7.8 million to \$7.9 million including both cash and in-kind.
- A substantial financial contribution by the European Union to further develop Tahitian vanilla and kava through out the country.
- The Ministry is undergoing an institutional strengthening exercise in collaboration with the Asian Development Bank. This will provide a new structure for the organisation that respond effectively to the needs of the public to its services.
- Commercialisation of 'Eua Forestry

**5.2.2 Fisheries Sector.**

5.2.2.0 This sector has substantial marine resources yet to be tapped. Therefore, investment in this sector is encouraged.

- The main objective of the Ministry is to maximize harvesting of marine resources in a sustainable way to meet the demand of the domestic and overseas market.

5.2.2.1 To support the Fisheries sector, the 1999/2000 budget allocates a total amount of \$3.0 million including cash and in-kind to the Ministry of Fisheries.

- Government will exempt fuel from custom duties, ports and services tax and sales tax for commercial fishing operations. This is an incentive to develop this resource rich industry.
- The Ministry is developing a “national fisheries management plan” to ensure sustainable development of the industry.
- The MV. Takuo assists private sector through dissemination of data from its research findings.

5.2.2.2 Trials are being undertaken on development of commercial pearl farming, giant clam, giant wing pearl oyster and new species of Lapila for Niuafou’ou. These projects are expected to contribute positively to the foreign reserves, foods, employment and income of the people of Tonga.

### **5.2.3 Tourism Sector:**

5.2.3.0 Tourism Industry is an important source of investment and employment. The Government will continue to support its development. This sector’s contribution to the foreign reserves is quite substantial. The main emphasis will be to:

- promote the industry in overseas market.
- set standard to enhance the services of the industry.

5.2.3.1 The Ministry’s total budget for 2000/2001 amounts to \$3.0 million both cash and in-kind. Within this budget there is an allocation for promotion of Tonga to increase the number of tourist and the profitability of the industry.

5.2.3.2. The roads to tourist attractions have been upgraded in support of the industry.

### **5.2.4 Manufacturing Sector.**

5.4.2.0 This a growing sector and becoming very important in providing employment and foreign reserves. The Ministry of Labour, Commerce and Industry will provide support through appropriate policies and incentives to increase trade and development of the industry.

- The Ministry total budget allocation for 2000/2001 including in-kind and cash is \$1.07 million.
- To support trade, the Ministry has established a Trade Division with the objective to identify overseas market for export. Pagopago is a market outlet where local produces are exporting to on a trial basis.

- The Small Industry Centre provides suitable facilities for business to rent.
- An overseas company has been established that processes food such as sweet potatoes into powder and ship overseas. This is a good opportunity for farmers to sell their crops such as cassava etc to this company.
- The existing foreign investment policy and industrial development incentive scheme are being reviewed with an objective to streamline the process and further enhance the environment for local investment.

#### **5.2.5. Transport Sector:**

5.2.5.0 The Ministry of Works, Civil Aviation, and Marine & Ports are involved in this sector. Their main objective is to improve the transportation network and associated infrastructures. This is an important role that the Government provides for the country.

- Their estimate allocations in 2000/2001 are \$7.06 million both cash and in-kind for Ministry of Works, \$4.57 million (both cash and in-kind) for Civil Aviation and \$0.47 million (both cash and in-kind) for Marine and Ports.
- Marine and Ports Department will assume the responsibility for coastal watch radio station, which was used to be carried out by the Tongan Telecommunication Commission.
- The Ministry of Works has carried out a major upgrading to the main roads in Tongatapu and the outer islands.

#### **5.2.6 Education Sector:**

5.2.6.0 The Ministry of Education aims to provide and sustain a relevant and quality education for all Tongans. This sector holds the key to jobs and better living. The human resource development is vital for social and economic enhancement.

- The total allocation (including cash and in-kind) for Education is \$15.14 million.
- The government cash contribution to non-government schools will continue but the annual subsidy will be increased from \$50 to \$100 per head in 2000/2001 budget. This assistance is government strategy to provide a quality and comparable education that is accessible to all people in Tonga.
- Works are being carried out to establish a new High School in Ha'apai.
- The Government is providing technical and vocational education, which provide a good job opportunities overseas for Tongan. The Institute of Science and Technology is providing marine courses that equip many Tongans who are being employed by overseas shipping agencies. This provides a good source of foreign reserve, employment and income for the people of Tonga.



### **5.2.7 Health Sector:**

5.2.7.0 The Ministry of Health objectives is to ensure that people of Tonga receive the best possible health services that are available, by the year 2005. This will be achieved through the provision of quality and accessible health care services to both urban and rural areas. The strategic goals of the Ministry will be to strengthen health promotion and preventives program. This is based on the principle that “prevention is better than cure”.

- The government is allocating a total budget including cash and in-kind of \$11.9 million;
- A Revolving Fund of \$1 million will be set up with an initial seed fund of \$900,000 for medical supplies and drugs. This initiative is to ensure that quality medical supply and drugs are self financing and available at all time. This is very important for general health of the people of Tonga.
- A 20% duty allowance has been granted to Nurses. Medical Officers and Dental Officers already have 35% duty allowance. This is an incentive for better performance and to minimise turnover of professional staff.
- The Ministry is assisted by the Australian government in reviewing the organisational structure with the aim to adopt an effective structure that is cost effective and efficient in services delivery. This also includes the review of resource allocation and revenue collection.

### **5.2.8 Public Utilities**

5.2.8.0 The Government for the past few years has invested heavily in infrastructure with an overall objective to facilitate the development of the private sector and to improve the overall welfare of the people of Tonga. The Japanese government is assisting the Tonga Water Board with a major upgrading of the Nuku'alofa Water Supply System.

## **Section 6:        *The 2000/2001 Programme Budget Estimate.***

### **6.1     The Overall Budget.**

6.1.0 The total Government expenditure for 2000/01, both cash and in-kind, is estimated at \$126.97 million.

6.1.1 The total cash expenditure is estimated at \$108.54 million. The total in-kind expenditure is estimated at \$18.43 million.

6.1.2 The sources of cash funding for the 2000/01 Budget is around \$108.54 million, of which 80% will come from the Government general revenue, 8% from overseas development assistance, 8% from the Government's Revolving Fund, 2% from the Tonga Trust Fund and local community contribution. The loan disbursement from the ADB is equivalent to 2%.

**Table 2: Sources of Funding – 2000/01 (\$m)**

	<b>2000/01 Estimate</b>	<b>%</b>
Government of Tonga (Cash)	87.23	80
Tonga Trust Fund/Local community contribution (Cash)	1.75	2
Revolving Fund (Cash)	8.88	8
Overseas Donor Fund (Cash)	8.33	8
ADB funds (cash)	2.35	2
Total In kind	18.43	15
Total Cash	108.54	85
<b>Total Expenditure</b>	<b>126.97</b>	<b>100</b>

## **6.2 Expenditure**

### **6.2.0 Current Cash Expenditure**

6.2.0.1 The estimated current cash expenditure for 2000/01 is \$83.05 million.

### **6.2.1 Expenditure Allocation**

6.2.1.0 The respective share of each Ministry in the recurrent expenditure is shown in Appendix 5. The Ministry of Education got 13% of the total budget, followed by the Ministry of Health (10%), and the Prime Minister's Office (7%).

### **6.2.2 Capital Expenditure**

6.2.2.0 Total capital cash expenditure for 2000/01 is estimated at \$11.71 million.

## **6.3 Revenue**

6.3.0 The revenue collection from each Ministry and Department is shown in Appendix 6.

### **6.3.1 Current Revenue**

6.3.1.0 The current revenue for 2000/01 is estimated at \$70.78 million. About 75% of current revenue are tax revenue and 25% is non-tax revenue. Out of the tax revenue, 66% is custom duties and port and services tax, while income tax is 19%. Most of the non-tax revenue is administrative fees, charges and entrepreneurial and property income.

**Table 3: Current Revenue (Cash) and its composition, 2000/01**

	<b>2000/01 Estimate (\$m)</b>	<b>%</b>
Income Tax	10.20	19
Domestic taxes on goods & services	8.00	15
Trade Taxes	34.61	66
<b>Total Tax Revenue</b>	<b>52.81</b>	<b>100</b>
Entrepreneurial & Property income	7.88	44
Administrative fees & charges	10.09	56
<b>Total Non Tax Revenue</b>	<b>17.97</b>	<b>100</b>
Tax Revenue	52.81	75
Non-tax Revenue	17.97	25
<b>Total Current Revenue</b>	<b>70.78</b>	<b>100</b>

### 6.3.2 Grants and Other Sources of Cash Funding

6.3.2.0 Total cash grants and other source of funding is estimated to be \$18.95 million. Of which, 44% is foreign aid, 47% revolving fund, 7% Tonga Trust Fund and 2% local community contribution (see also appendix 7 for detail of sources of funding).

**Table 4: Cash Grants received and its sources, 2000/01**

	<b>2000/01 Estimate (\$m)</b>	<b>%</b>
Foreign development assistance	8.33	44
Tonga Trust Fund	1.30	7%
Revolving Fund	8.88	47%
Local Community Contribution	0.44	2%
<b>Total Grants Received</b>	<b>18.95</b>	<b>100.00%</b>

### 6.4 Fiscal Balance

6.4.0 The overall total recurrent revenue and recurrent expenditure for 2000/01 is \$87.74m and \$87.23m, respectively, leaving a balance of \$0.51m.

### 6.5 Government Debt

6.5.0 The estimated Government's total disbursed outstanding debt (dod) for 1999/00 is approximately 44% of Gross Domestic Product. This is not so high by international standards and considered manageable since over 80% of the total loan portfolio is foreign loans at extremely low concession rates of interest.

**Section 7: Conclusion.**

7.0 The Budget for 2000/01 is the first budget for the new millennium. This budget sets the direction for our future economic and social development. To achieve these goals we need to work together to overcome the various challenges that lie ahead. In working together we can realise our aspiration to secure a better future for the people of Tonga.

7.1 Finally, on behalf of His majesty's Government, I wish to acknowledge with sincere gratitude the tremendous contribution of various Foreign Governments to the development program in Tonga. I also wish to convey my appreciation to all institutions, organisations and the people of Tonga for their co-operative efforts in advancing the well being of the Kingdom.

**HON. KINIKINILAU TUTOATASI FAKAFANUA  
MINISTER OF FINANCE.**

## **Appendix 1: Outline Of The National Vision**

### **Overall National Objectives**

The long-term vision for Tonga will be to accomplish the following desired characteristics:

- ◆ *high quality of life of the people overall;*
- ◆ *high standard of living throughout the Kingdom;*
- ◆ *respect for both present and future generations;*
- ◆ *high valued and adaptive culture;*
- ◆ *individual fulfillment;*
- ◆ *political stability; and*
- ◆ *stable economic and financial environment with less dependence on foreign aid.*

### **Broad Objectives for Medium Term**

National Economic development will be guided by the following objectives:

- ◆ *Efficient and well structured government sector, with the qualities of good governance and accountability;*
- ◆ *Efficient and well structured state owned enterprises;*
- ◆ *Sound and encouraging environment for the development and increased involvement of the private sector in economic activity;*
- ◆ *Well maintained physical infrastructure;*
- ◆ *Development benefits being distributed equitably;*
- ◆ *Well educated and skilled labour force, healthy population as well as development of the potential of youth and promotion of international sports;*
- ◆ *Low crime and guaranteed national security; and*
- ◆ *Stable macro-economic environment with reduced reliance on official foreign assistance.*

### **National Development Strategy**

Based on the national objectives the following development strategy will be pursued:

- ◆ *Improve Tonga's comparative advantage and competitive positions;*
- ◆ *Facilitate the development and enhancement of the private sector;*
- ◆ *Rationalize the services of the government and public enterprises;*
- ◆ *Develop human resources including youth and international sports;*
- ◆ *Maintain and improve the physical infrastructure;*
- ◆ *Improve access to government services in rural areas and outer islands;*
- ◆ *Raise domestic saving;*
- ◆ *Sustainable utilization and management of natural resources and the environment;*
- ◆ *Manage the development of urban areas;*
- ◆ *Create employment; and*
- ◆ *Develop communication and information technology.*

Appendix 2<sup>1</sup>: Balance of Payment of the Kingdom of Tonga 1992/93 – 1998/99 (T\$m)

ITEM	1993/94	1994/95	1995/96	1996/97	1997/98 Provisional	1998/99 Provisional
<b>Merchandise trade</b>						
Exports f.o.b	22.1	18.0	17.0	13.5	12.3	15.0
Imports f.o.b	72.7	89.5	104.2	82.7	83.5	85.1
Balance of Trade	-50.6	-71.5	-87.2	-69.2	-71.2	-70.1
<b>Services</b>						
Service Receipts	22.4	27.0	38.0	50.1	38.1	39.6
Service Payments	45.8	54.2	53.7	55.8	53.6	54.4
Balance on Services	-23.8	-27.2	-15.7	-5.7	-15.5	-14.8
<b>Other good and services</b>						
<b>Investment income</b>						
Income receipts	12.0	8.4	9.9	11.5	15.9	11.4
Income payments	0.3	3.8	3.7	5.1	3.7	4.2
Balance on income	11.7	4.6	6.2	6.4	12.2	7.2
<b>Transfers</b>						
Private transfer receipts	34.6	34.2	39.7	45.6	39.9	39.9
Official transfer receipts	4.2	7.9	10.0	11.5	8.4	9.5
Private transfer payments	9.7	10.4	8.3	6.6	9.5	9.6
Official transfer payments	3.1	2.7	1.5	0.7	2.0	0.8
Balance on transfer	26.0	29.0	39.9	49.8	36.8	39.0
Current account balance	-36.3	-65.1	-56.8	-18.7	-37.7	-38.7
Capital account balance	43.5	55.7	53.7	26.1	27.0	54.2
Total Capital & Current Account	<b>7.2</b>	<b>-9.4</b>	<b>-3.1</b>	<b>7.5</b>	<b>-10.7</b>	<b>15.8</b>
Net errors and omissions	-0.5	-0.9	1.1	-0.5	-1.0	-5.5
Overall balance	<b>6.7</b>	<b>-10.3</b>	<b>-2.0</b>	<b>7.0</b>	<b>-11.7</b>	<b>10.3</b>

Source: Statistics Department

1 The figures in appendix 2 are subject for further revision. Export and import figures in Appendix 4 may not reconcile with that in Appendix 2 due to (a) figures in Appendix 4 are figures based in fiscal year while appendix 4 in calendar year and (b) figures in Appendix 2 were estimates in early 1999 and Appendix 4 in early 2000.

**APPENDIX 4: TONGA'S MAJOR TRADING PARTNERS FOR THE YEAR 1996 TO 1999**

	1996	1997	1998	1999	% Share of 1999 Totals
<b>Exports (fob):</b>					
Australia	507,296	467,854	327,644	468,593	2.4
Fiji	533,666	650,450	533,822	360,547	1.9
Japan	6,854,637	6,706,035	4,665,341	11,763,810	61.2
New Zealand	1,989,382	1,387,921	1,191,128	1,266,733	6.6
American Samoa	513,681	1,525,181	279,977	223,496	1.2
USA	733,736	781,847	1,702,652	3,792,514	19.7
Hawaii	843,403	1,218,437	992,684	877,033	4.6
Germany	241,000	10,296		159,600	0.8
Others	1,414,927	610,360	1,343,452	306,249	1.6
<b>Exports</b>	<b>13,631,728</b>	<b>13,358,381</b>	<b>11,036,700</b>	<b>19,218,575</b>	<b>100.0</b>
Exports (1)	13,631,728	13,358,381	11,036,700	19,218,575	96.2
Re-exports (2)	1,411,900	396,900	521,100	765,788	3.8
<b>Total Exports (3=1+2)</b>	<b>15,043,628</b>	<b>13,755,281</b>	<b>11,557,800</b>	<b>19,984,363</b>	<b>100.0</b>
<b>Imports (cif):</b>					
Australia	27,243,809	22,165,866	20,145,672	32,717,352	28.1
China	1,061,338	425,543	1,092,816	1,230,778	1.1
Fiji	6,528,910	5,443,059	5,862,554	11,565,634	9.9
Japan	6,333,189	3,784,224	3,769,340	7,046,880	6.1
New Zealand	34,469,166	22,148,577	29,679,789	39,699,166	34.1
United Kingdom	538,070	350,845	176,326	1,081,779	0.9
USA	10,063,879	7,971,161	11,614,449	14,923,030	12.8
Hawaii	268,710	81,743	403,300	733,115	0.6
Others	5,299,629	29,723,882	29,645,954	7,468,711	6.4
	<b>91,806,700</b>	<b>92,094,900</b>	<b>102,390,200</b>	<b>116,466,445</b>	<b>100.0</b>
<b>TOTAL IMPORTS</b>					

Source: Statistics Department

**APPENDIX 3: TONGA'S IMPORTS(CIF) BY SITC GROUPS**

	1996	1997	1998	1999
<b>Imports by SITC Groups</b>				
Food and Live Animals	24,249,754	23,485,033	28,189,010	28,252,200
Beverages and Tobacco	4,602,541	4,609,519	5,008,290	7,128,755
Crude Materials, Inedible	4,049,227	4,594,126	5,430,707	5,982,295
Fuels and Lubricants	11,553,005	13,018,293	10,588,973	14,916,836
Oils and Fats	357,442	297,647	387,578	824,146
Chemicals	6,816,952	6,655,959	7,603,124	9,089,613
Manufactured Goods by Materials	14,343,691	14,834,486	18,055,771	20,026,170
Machinery and Transport Equipment	18,476,500	17,662,240	18,110,908	20,476,115
Miscellaneous Manufactured Articles	7,137,585	6,575,178	8,463,248	9,237,826
Commodities Not Elsewhere Specified	219,958	362,020	552,616	532,489
	<b>91,806,655</b>	<b>92,094,501</b>	<b>102,390,225</b>	<b>116,466,445</b>

Source: Statistics Department



**APPENDIX 5: RECURRENT EXPENDITURE (CASH) BY VOTE FOR 2000/01 (\$M)**

	<b>2000/01 Estimates</b>
Palace Office	1.22
Legislative Assembly	1.93
Prime Minister's Office	6.29
Ministry of Foreign Affairs	3.54
Governor of Ha'apai	0.12
Governor of Vava'u	0.08
Ministry of Lands, Survey & Natural Resources	1.38
Printing Department	0.72
Justice	0.94
Ministry of Police	2.89
Crown Law Department	0.29
Ministry of Defence	3.93
Ministry of Finance	3.28
Audit Department	0.34
Ministry of Education	11.41
Ministry of Health	8.41
Civil Pensions	5.75
Prison Department	0.49
Ministry of Agriculture & Forestry	2.97
Ministry of Fisheries	0.98
Central Planning Department	0.44
Ministry of Labour, Commerce & Industries	1.07
Tonga Visitors Bureau	0.92
Ministry of Works	3.35
Ministry of Civil Aviation	1.61
Ministry of Marine & Ports	0.48
Public debts	16.66
Financial Contributions	5.74
<b>Total Recurrent Expenditure</b>	<b>87.23</b>

**APPENDIX 6: RECURRENT REVENUE (CASH) BY VOTE FOR 2000/01 (\$M)**

	<b>Estimate for 2000/01</b>
Palace Office	-
Legislative Assembly	-
Prime Minister's Office	4.33
Ministry of Foreign Affairs	-
Governor of Ha'apai	-
Governor of Vava'u	-
Ministry of Lands, Survey & Natural Resources	0.83
Printing Department	0.88
Justice	0.29
Ministry of Police	0.99
Crown Law Department	-
Ministry of Defence	-
Ministry of Finance	53.89
Audit Department	0.02
Ministry of Education	1.03
Ministry of Health	0.25
Civil Pensions	-
Prisons Department	0.11
Ministry of Agriculture & Forestry	0.53
Ministry of Fisheries	0.49
Central Planning Department	-
Ministry of Labour, Commerce & Industries	0.99
Tonga Visitors Bureau	0.28
Ministry of Works	1.44
Ministry of Civil Aviation	2.02
Ministry of Marine & Ports	0.43
Public debts	17.93
Financial Contributions	1.01
<b>Total Recurrent Revenue</b>	<b>87.74</b>

**APPENDIX 7: SOURCE OF FUNDING (CASH) OTHER THAN GOVERNMENT FUNDING  
FOR 2000/2001**

<b>Source of Funding</b>	<b>Estimate 2000/2001</b>
Australian Bilateral	2,649,429
Australian Defence Co-operation	-
Australian Non-Bilateral Government	2
Australian Non-Government	10,000
Canada	200,001
France	73,002
Germany	20,001
Japanese International Cooperation Agency	31,005
Japan Non-Government	500
Kuwait	-
Malaysia	-
Netherlands	30,196
New Zealand Bilateral	1,138,314
New Zealand Defence Co-op.	-
New Zealand – Other Government	1
New Zealand Non-Government – VSA	1
USA Bilateral	1,150,001
USA Non-Government	1
USA Other Government	1,002
Republic of China	8,006
United Kingdom	3
UK Non-Government – VSO	-
Taiwan	-
Asian Development Bank	2,349,228
European Investment Bank	1
World Bank International Development Agency	2
International Fund for Agricultural Development	-
International Monetary Fund	-
APO Consultancy	-
Commonwealth Fund for Technical Cooperation	8,001
ESCAP Pacific Operation Center	-
European Union	2,861,904
Forum Secretariat	22,200
South Pacific AGC	-

**APPENDIX 7: SOURCE OF FUNDING (CASH) OTHER THAN GOVERNMENT FUNDING  
FOR 2000/2001**

<b>Source of Funding</b>	<b>Estimate 2000/2001</b>
South Pacific Commission	27,468
South Pacific Regional Environmental Programme	114,577
United Nations Development Programme	52,839
United Nations Education Scientific & Cultural Organisation	15,000
United Nations Family Planning Association	245,760
United Nations International Children's Fund	4,501
Food and Agricultural Organisation	88,002
International Labour Organisation	5,001
World Health Organisation	183,469
South Pacific Applied Geoscience Commission	55,002
Forum Fisheries Agencies	32,000
Local Fund	-
Tonga Trust Fund	1,300,004
Revolving Fund	8,883,477
Local Community Contribution	444,931
Miscellaneous	305,062
<b>Grand Total</b>	<b>21,309,893</b>