



Ministry of Finance and National Planning
GOVERNMENT OF TONGA.

PRESS RELEASE

Government of Tonga Fiscal Strategy

The Government of Tonga is committed to providing the highest quality of public services and the most competitive public sector wages possible, while maintaining fiscal sustainability so that we can also ensure quality services for future generations. Over the last five years, the government has made major steps in improving the health of the public finances, and this has put the country in a strong position to face the future and support a high quality of life for all Tongans.

To guide budget formulation, the Government has now developed a set of medium-term fiscal targets which will help us insure against fiscal risks while maintaining excellent public services. These targets have been developed based on robust economic modelling within the Ministry of Finance and National Planning, which has taken into account the possibility of shocks such as natural disasters happening in the future, and the destabilizing impact they can have on the public finances.

There are three fiscal targets, or “anchors”. The first is a revenue target which represents the level of domestic resource mobilization required to sustain government services, after accounting for other sources of funding such as external grants. The second is a public service wage affordability target, which reflects how much the government can afford to spend on wages while preserving sufficient space for other essential spending on goods and services, etc. This is represented as the ratio of the public service wage-bill to domestic revenues. The third is a government debt target which represents how much debt the government can accumulate while maintaining the fiscal space necessary (for instance) to respond in the case of a national emergency. This is expressed as a ratio of external debt to gross domestic product.

	Medium-term target
Domestic revenue to GDP	Greater than 22 percent
Compensation of employees, ratio to domestic revenue	Less than 53 percent, and moving towards 50 percent over time
External debt to GDP	Less than 50 percent

The fiscal targets are presented in the table above. These targets are consistent with recent Government budgets and will be taken into account during preparation of the FY2017/18 budget, and future budgets. They will be clearly and prominently cited in the annual Government budget statement, with an accompanying assessment of recent and expected performance against these targets. While it is not intended that these targets will always be met, in years where they are not met, the budget will set out the anticipated path towards meeting these objectives over the medium-term.

While the three-year ahead forecasts of budgetary outcomes will vary from year to year depending on the current fiscal position and the near-term outlook, these medium-term targets are expected to remain constant over time.

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