



GOVERNMENT OF TONGA

# BUDGET STATEMENT

For the year ending 30<sup>th</sup> of June , 2024



HTTH Reconstruction Project

*M&M&E & M&D  
(monitor team)*



Recent Cruise Ship Arrival to Nuku'alofa



Feleoko 'a Maui Talo Export Monitoring



Pacific Sunrise fishing Mahimahi

**“Partnership for Greater  
Resilience and Sustainability to  
restore Inclusive Growth”**



Ministry of Finance

May 2023



***Psalm 37:3-4***

*3. Trust in the Lord and do good; dwell in the land and enjoy safe pasture.*

*4. Take delight in the Lord, and he will give you the desires of your heart.*

***Psalm 127:1***

*“Unless the Lord builds the house, the builders labour in vain”; unless the Lord watches the city, the guards stand watch in vain”*

***Proverbs 3:5-6***

*5 Trust in the Lord with all your heart and lean not on your own understanding;  
6 in all your ways submit to him, and he will make your paths straight.*

***Psalm 28:7***

*"The Lord is my strength and my shield; in him my heart trusts, and I am helped; my heart exults, and with my song I give thanks to him."*



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## FOREWORD

The last two years have been a trial of strength for all Tongans in the face of climate change, COVID-19 pandemic, volcanic eruption of Hunga Tonga-Hunga Ha'apai (HTHH) and the resulting tsunami. As a nation, the future we face contains many uncertainties. The coastline of our islands, especially Tongatapu, will continue to shrink as the sea-level continues to rise and the low-lying areas become vulnerable to flooding while the intensities of future tropical cyclones are expected to increase.

Despite the difficulties, this Government will address the many economic and social issues it is presented with.

This budget is designed to lessen the economic strains endured by our people so that we may reach the desired level of economic prosperity, as outlined in the Tonga Sustainable Development Framework (TSDF) II. As the Psalm says,

*"The Lord is my strength and my shield; in him my heart trusts, and I am helped; my heart exults, and with my song I give thanks to him." - Psalm 28:7*

This budget prioritizes the people of Tonga.

This budget prioritizes those in our community who have been especially hard hit by economic distress caused by the eruption of Hunga Tonga - Hunga Ha'apai and climate change as well as for those who have been passed over by the safety nets that have been established in our society.

It is documented by research that the social safety nets have been in a state of stress for a period of time, with 3 percent of our population being identified as existing in extreme hardship.

The Fiscal Year 2024 budget will serve as a source of recovery, offering services to Tongan citizens and restoring a sustainable and equitable economic growth. This budget introduces new social protection expenditure measures comprising:

- (i) affordable housing for low-income families(\$1m);
- (ii) funding for reintegration of overseas returnees (\$60,000); and
- (iii) the provision of breakfast for schools to strengthen nutrition to begin in 2024 with primary schools throughout Tonga (2 breakfasts per week) (\$1.2m).

The economy has weathered the extreme effects of HTHH and the COVID-19 pandemic, and the Government is determined to prioritize recovery. The most important lessons and events have demonstrated the necessity of strengthening national resilience to face future disasters or catastrophes. Equally important is the continuous collaboration by key stakeholders to implement the recovery plans and policy actions. On that note, the Budget FY 2024 will be guided by the theme:

***“Partnership for greater Resilience and Sustainability to restore Inclusive Growth”***

The Government will focus on finalizing the Government Reconstruction Housing Program, accelerate the introduction of significant development projects, endorse new ventures and rehabilitation projects to restore economic activity in fundamental industries - agriculture, fisheries and tourism. The Government will also continue to prioritize health standards through the improving of health infrastructure and facilities, quality and inclusive education and supporting the vulnerable groups including poor families and households.

This Budget, aligning with the TSDF II and the recovery process, will, therefore, continue to focus upon Government Priority Agenda (GPA), which reflects the ongoing Government commitment

to ensure the national and economic security of all citizens. The nine (9) GPA are grouped into three thematic areas:

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

The Government's ministries, departments and agencies must collaborate and use resources judiciously in order to communicate the themes and priorities to the people. The format of this Budget Statement emphasizes the cross-organization nature of the GPA and the plans we have made.

In terms of the economy, FY 2021 recorded a negative 2.7 percent, FY 2022 recently revised to negative 0.4 percent (from negative 3.1 initially projected in December 2022) and FY 2023 was a positive growth of 2.8 percent.

The positive growth in FY 2023 reflects the recovery activities, mainly on the construction sector, and pick up on economic activities in other sectors, following the re-opening of the border in September 2022. The medium term (FY 2024 to FY 2026) is projected to show an average growth of 2.5 percent, driven by the continuous HTHH recovery reconstruction activities and other major development projects. On the fiscal side, increased expenditure (to the current level), coupled with the commencement of the Export-Import Bank of China loan repayment in FY 2024 (estimated total of \$45m), while maintaining a balanced approach, will cause a budget deficit of \$27.2m in FY 2024.

The Budget FY 2024 prioritizes resources so that Government spending can be directed to support economic recovery and social wellbeing of Tongan citizens. Given the current fiscal situation, the Government will prioritize the three fundamentals of the Public Finance Management (PFM) three (3) objectives of: (i). Aggregate fiscal discipline; (ii) Allocative efficiency and (iii) Operational efficiency to achieve its objectives.

The Budget FY 2024 aims to continue the ongoing initiatives and essential measures to advance medium-term economic recovery, concentrating on the central sectors of the economy, including those that benefit vulnerable groups, improve employment, encourage investment and maintain overall macro-fiscal stability.

All stakeholders are strongly encouraged to cooperate and collaborate in order to implement government-enforced policies and goals effectively, and to revive and reinvigorate our beloved nation.

We are immensely thankful for the continuing solidarity and backing of our partners in development, the Tongan diaspora, and all those who care about Tonga.

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

**God bless Tonga!**



Tiofilusi Tiueti

**Minister for Finance**

## 1. INTRODUCTION

The second Budget of the current administration will focus on economic recovery, greater resilience and sustainability; hence it is inspired by the theme:

*“Partnership for greater Resilience and Sustainability to restore Inclusive Growth”*

The theme represents the underlying efforts of initiating economic recovery through continued collaboration between all key stakeholders, in order to improve the standard of living of all Tongans.

This budget puts people first and focus on the life and livelihood of all Tongans.

This budget in addition to targeting those living in extreme hardship is designed to improve the standard of living of the 27 percent<sup>1</sup> of the population who are classified as deprived and live in low-income households. Studies show that our child poverty rates are higher than adult poverty rates, with 36 percent of children living in poverty, compared with 22 percent of adults.

These indicators are a call for action and this budget is a direct response by the Government.

This budget will target our child poverty rates as a matter of the utmost urgency.

The Budget FY 2024 will support Government plans and initiatives to help the Tongan people recover from the damage caused by the crises, restore sustainable, equitable and inclusive growth for the economy.

Among the policy measures for the fiscal year 2024, the new social safeguard policy outlay provisions encompass the following:

- (i) affordable housing for low-income families(\$1m);
- (ii) funding for reintegration of overseas returnees (\$60,000); and
- (iii) the provision of breakfast for schools to strengthen nutrition to begin in 2024 with primary schools throughout Tonga (2 breakfasts per week) (\$1.2m).

The measures will be monitored to gauge their impact and capability, following which additional decisions will be adopted on augmenting and deepening them.

The Tongan economy was negatively affected by external shocks since COVID-19 started in FY 2021, including the unprecedented scale of devastation caused by the eruption of HTHH. This coincided with the continuation of the COVID-19 pandemic, along with a spike in the global inflation rate because of the ongoing political tensions between Russia and Ukraine. These global factors continued to have spill-over effect on the Tongan economy.

This year’s budget has targeted economic revival as its response. The Government plans and policies will therefore focus on economic recovery activities such as implementing potential Public Private Partnership (PPP) projects, support `build back better` approach for more climate proof housing, implementation of government reforms to enhance service delivery. There will continue to be an ongoing focus on the developments under the social sectors, mainly the health and education sectors and the support towards the vulnerable groups as noted earlier.

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<sup>1</sup> Statistic Department Tonga. (2018, November 6, pg.6). “Assessing progress towards the eradication of poverty in the Kingdom of Tonga”



Considering the current economic and financial situation, the efficient and effective implementation of Government priorities will require inclusive partnerships, coordination, and collaboration across Government and key stakeholders, including the private sector, civil society, and development partners. It is, therefore, a call for all key stakeholders to work together, for the betterment of all Tongan citizens. To achieve this, and in line with TSDF II, the Government's Priority Agenda (GPA) is categorized under the following three thematic areas:

1. National Resilience;
2. Quality Services and Affordability; and
3. Progressive Economic Growth.

These wide-ranging ideas and the GPA within them will provide the Government with the opportunity to concentrate on building up and recovering to ensure better living conditions for all Tongans. The details of each theme and the GPA within are provided in Section 4 of this Statement.

### **From Crises to Recovery**

The recent shocks to Tonga have had a deep and far-reaching effect on its economy and its citizens and have shaken up many facets of day-to-day existence. The Government has responded by focusing on the ongoing implementation of a recovery scheme, intending to ameliorate macroeconomic measurements, in addition to facilitating the repair of damaged infrastructure and helping the disadvantaged.

The economy contracted by 0.4 percent in the FY 2022, because of the impact of the HTHH, along with interruptions imposed upon by the COVID-19 pandemic and global supply sided shocks such as the Russia-Ukraine war. The economy is projected to recover in FY 2023 by 2.8 percent, driven by the recovery activities under the construction sector and improvements in other sectors. In FY 2024, the economy is expected to grow by 2.6 percent, because of the ongoing reconstruction activities and planned implementation of major infrastructures and investment activities. We expect the economy to grow at an average of 2.5 percent in the medium-term, in the period between the FY 2024 to FY 2026.

On the fiscal side, an expected budget deficit of \$27.2m is estimated in FY 2024, mainly attributed to the commencement of the China Export-Import Bank loan repayments. The Government will implement the proposed revenue measures, including the review of tax exemptions, commencing in FY 2024. An ongoing assessment of other exemptions such as pre-existing subsidies to the economic sectors, growth projects and non-tax income components shall remain in effect. In order to secure the financing, the Government will seek additional support from development partners in the medium-term and will consider debt domestication as an option. The Government shall continue to observe prudence in fiscal management and prioritization of essential activities over the medium term. This includes the continued application of prudent fiscal and monetary policy responses, to focus on delivering the theme of the budget FY 2024. Once more, it is essential that all stakeholders come together in a joint effort, in order to guarantee reconstruction and economic success. This is of the utmost importance, with regard to the successful execution of Government objectives to induce sustainable and equitable development to our nation.

We acknowledge the continued support of our development partners, the Tongan diasporas, especially during the past years, and we hope for continued partnership in helping achieve Government plans and priorities for Tonga.

**Note:**

- (i) All amounts stated in this document are in Tongan Pa'anga unless otherwise indicated.
- (ii) Differences in numbers are due to rounding.
- (iii) Financial Year (FY) is read as, *for example*: FY 2024 = 2023/24 ending to the 30<sup>th</sup> of June 2024.
- (iv) \$xx m: the letter '*m*' refers to a 'million' or millions of Tongan Pa'anga unless otherwise indicated

## 2. SCOPE AND STRUCTURE OF THE BUDGET STATEMENT

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

<b>Section 1</b>	Introduction
<b>Section 2</b>	Scope and Structure of the Budget Statement
<b>Section 3</b>	Budget Overview FY 2024
<b>Section 4</b>	Thematic Areas and the Government Priority Agenda (GPA)
<b>Section 5</b>	Macroeconomic Strategy, Performance and Outlook
<b>Section 6</b>	The Government Budget: by Funding Allocation
<b>Section 7</b>	Conclusion
<b>Annexes</b>	Detailed information and analysis

The intention of the Budget Statement is to facilitate the actions required of ministries, departments and agencies (MDA) to deliver the services identified for each GPA in the Budget Strategy of February 2023.

This facilitation will take the form of:

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

The Budget Statement FY 2024 will continue to adopt similar scope, form and approach of undertaking consultation with stakeholders.

Section 3 provides the overview of Government budget for FY 2024. Section 4 continues on to Thematic Areas and the Government Priority Agenda (GPA).

An overview of the Macroeconomic Strategy, Performance, Outlook and economic environment challenges facing Tonga is provided in Section 5. Annex I provide greater detail of this analysis.

Section 6 is presenting the Government Budget by Funding Allocation which will also be discussed in details according to GPA.

### 3. BUDGET OVERVIEW FINANCIAL YEAR 2024

The total expenditure budget for FY 2024 is \$784.2m of which \$419.5m is recurrent (53.5 percent) and \$364.7m development (46.5 percent). Of the total budget, 65.8 percent or \$515.8m is the appropriated cash, while 34.2 percent or \$268.4m is in-kind.

The share of the development budget in FY 2024 is estimated to increase to 46.5 percent from 42.9 percent in the current FY while the recurrent budget decreases, reflecting the stronger partnership between government and development partners including the provision of additional budget support.

**Table 1: Total Budget Estimate FY 2024 (\$m)**

Source of Fund	Original Budget 2022/23	Budget Estimates 2023/24	Budget Estimates 2024/25	Budget Estimates 2025/26
<b>Recurrent</b>	<b>437.0</b>	<b>419.5</b>	<b>420.9</b>	<b>418.7</b>
<b>Development</b>	<b>327.7</b>	<b>364.7</b>	<b>327.9</b>	<b>331.0</b>
Cash	136.1	96.3	84.2	78.1
In-kind	191.6	268.4	243.6	252.9
<b>Grand Total</b>	<b>764.7</b>	<b>784.2</b>	<b>748.8</b>	<b>749.7</b>

Source: Ministry of Finance (MOF)

The Government's budget is systematically divided in line with the nine (9) strategic focus areas as stated in the [Table 12](#) in Section 4.4, which portrays a continuation from the present budget to the fiscal year 2024 with the principal aim of enhancing the public's access to quality and reasonably priced public services.

The ongoing HTHH reconstruction efforts will be financed by the development budget in FY 2024. Government's contribution in FY 2023 of \$11.0m is estimated to be unutilized as the development funds available are currently sufficient. However, because of unforeseen increases in commodity prices, which consequently affected fuel and electricity prices; the unutilized recurrent funds for HTHH in FY 2023 were re-prioritized to cater for the government's electricity tariff subsidy payments to help cushion the inflationary impacts on households.

The development budget for HTHH recovery includes the reconstruction of 238 displaced households, approaching its final stages. The Ministry of Infrastructure led the constructions of roads to the new settlements, while other stakeholders installed utility lines such as electricity, water and drainage.

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

Source of Funds	Original Budget FY 2023 (\$m)	Estimated Outturn FY 2023 (\$m)	Budget FY 2024 (\$m)
<b>Recurrent</b>	<b>11.0</b>	-	-
<b>Development</b>	<b>109.9</b>	<b>81.9</b>	<b>30.6</b>
Cash	49.2	32.4	20.1
In-Kind	60.7	49.5	10.5
<b>Total</b>	<b>120.9</b>	<b>81.9</b>	<b>30.6</b>
<i>HTHH % to Total Budget</i>	15.8%		3.9%

Source: Ministry of Finance (MOF)

*Table 2* shows the estimated HTHH Reconstruction Financing Plan for FY 2024. The total confirmed funding for new financial year is approximately 3.9 percent of the total budget for the Financial Year 2024. Fundings from Development partners amounted to \$20.4m of the total of \$30.6m to be part of the recovery reconstruction for the FY 2024. The remaining balance of \$10.2m from this allocated budget is implemented through various components of major projects that are currently ongoing like TCRTTP (Reconstruction of Nafanua Terminal and Wharf, ‘Eua), TSRSP (Reconstruction of 10 Primary Schools that were severely affected by the Tsunami especially in the Ha’apai groups), PSOP (Providing of Fishing Boats to the constituencies that had fishing boats completely destroyed) and TRIP II.

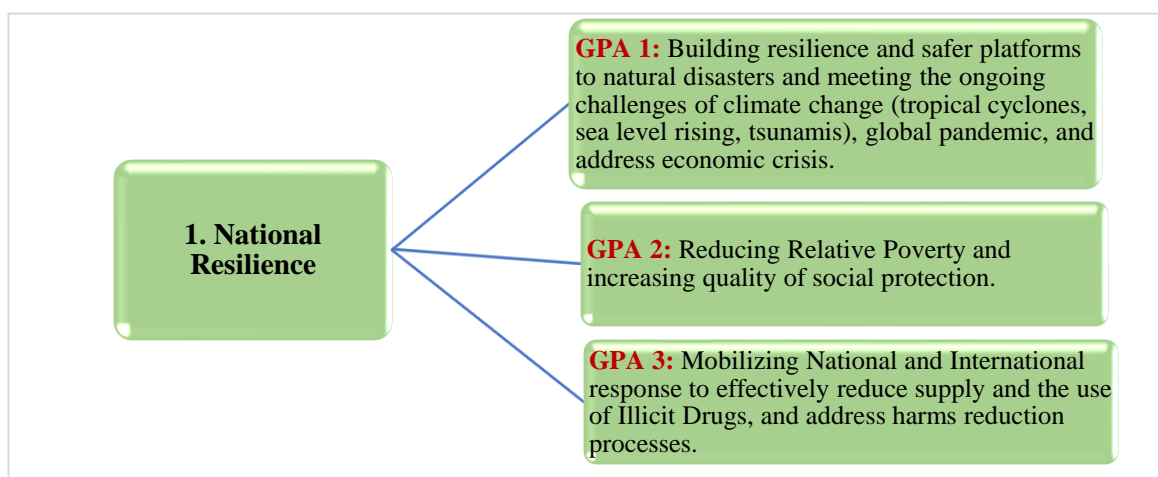
#### 4. THEMATIC AREAS AND THE GOVERNMENT PRIORITY AGENDA

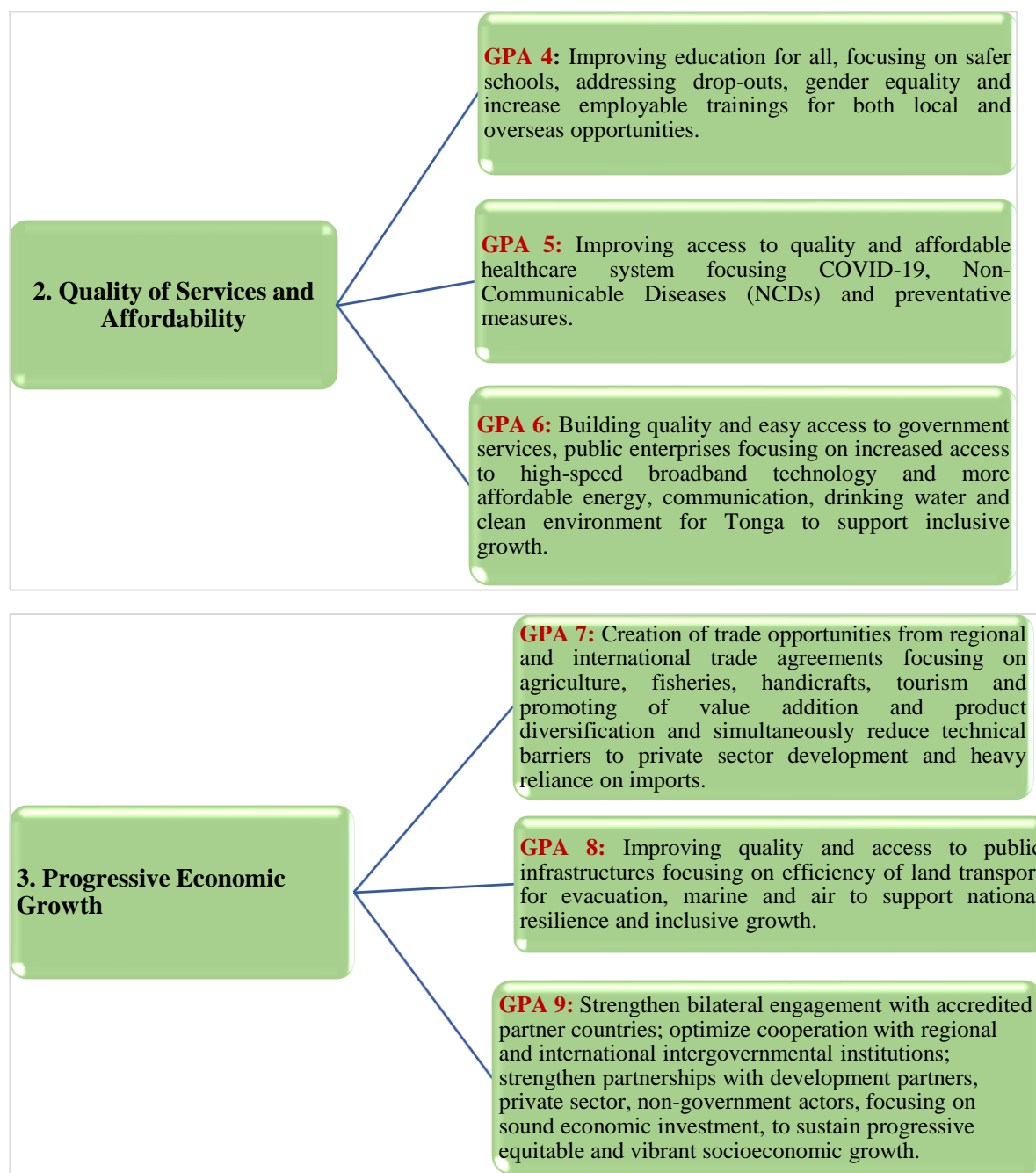
The TSDF II delineates the long-term national development strategy that all plans and budgets are embedded within. Key steps towards mainstreaming the TSDF II into the national planning process have been taken, including the creation and incorporation of the GPA into the Corporate Plan (CP) with the budget, with one more fiscal year left before the term's completion in FY 2024 – FY 2025. The government will continue to support the nine (9) Government Priority Agendas during FY 2023 – FY 2024. To help the government concentrate on its top priorities, the GPAs remain within the parameters of the TSDF II. When comparing the budget allocation by three (3) thematic areas and nine (9) GPAs for FY 2024 to FY 2026, *Figure 1* below gives an overview.

The three (3) thematic areas of national resilience, service quality and affordability, and prospects for progressive economic growth continue to be the focus of the nine (9) GPAs. However, the government also understands how critical it is to give priority to areas where the public has the greatest needs and to make sure that no one is left behind with government services. Thus, as seen in *Figure 1* below, the budget allocations were mapped to the GPAs. The updates on the status of each GPA were based on the Monitoring & Evaluation (M&E) of the Corporate Plans (CP) for the first half of FY 2023 and new data gathered from the review of other planning documents are provided below.

This Budget Statement focuses on the three (3) thematic areas and the nine (9) GPAs.

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





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

Each GPA is discussed in Section 4, providing analysis, performance overview in FY 2023, and funding. The detailed activities and review of the performances of the GPAs are provided in Annex III.

#### 4.1 Thematic Area 1: National Resilience

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

- Implementation of the HTHH Reconstruction Recovery project;
- Implementation of the Disaster Reduction and Climate Change related projects;
- Strengthen the compliance with Building Code; and
- ADB Trust Fund (Climate Change).

## GPA 1 Review of Performance FY 2023

Similar to FY 2022, MEIDECC received the largest share of the development budget of all ministries under this GPA for FY 2023. This was because of the ongoing recovery efforts of the post effects of the HTHH volcanic eruption and tsunami of the Climate Resilience related development projects. Four (4) areas of focus regarding GPA 1: are being reviewed here.

### a. Implementation of the HTHH Reconstruction Recovery Project

The recovery efforts in this area were attributed to Relief Assistances as follows:

- **Business Relief Assistance** of \$0.38m supported in the Resilience Fisheries Development and Marine and Coastal Ecosystem conservation. The focus was targeted at **Special Management Areas (SMAs)** in villages that were affected by the HTHH. There was also **Fisheries Tsunami Relief Assistance**. This was targeted at fishermen as aid, support and equipment to help them recover from the effects of the HTHH on their livelihoods and fishing capacity. Ongoing help to the agriculture continued through the distribution of seedlings
- The **Tonga Volcanic Eruption and Tsunami Project** implementation has utilized \$14m out of the allocated \$33.2m to assist the affected households from the HTHH disaster. Out of the 238 houses for reconstruction, included 30 houses have been completed, 127 houses are currently under construction, and 81 houses are yet to start.

### b. Implementation of the Disaster Reduction and Climate Change related projects

One of the primary departments of MEIDECC that was heavily involved in the efforts of recovery was the National Emergency Management Office.

- **Completed the After-Action Review (AAR) of the HTHH where two key areas identified included simplifying of the IDA questionnaire and Cluster preparedness plan.**
- Joint operation of training Ministries, Departments and Agencies (MDAs), Non-Government Organizations (NGOs) and communities across Tonga on **Initial Damage Assessments (IDAs)**. This is a post disaster assessment conducted to gather information at the same time mitigating duplication and respondents' fatigue which was funded by the UNDP.
- NEMO also continued the **National Drills** throughout Tonga and completed 161 Village Emergency Plans and will continue to complete the rest of Tonga. The Tonga Broadcasting Commission NEWS (Nationwide Early Warning Systems) project, funded by Japan, achieved a great success when they installed the Early Warning Systems in 2022, which is an enormous benefit for Tonga in terms of disaster reduction.
- **PREP (Tonga Pacific Resilience Project)** Component 1 is regarding the Strengthening of Early Warning Systems and Preparedness. One of their activities is upgrading the ICT (Information Communication Technology) for the Meteorology Division, NEMO and the Geology Division to assist with Early Warning. Tofua Island was chosen for the installation of an **Automatic Weather Service** station (AWS) near the coast and microwave data link to the nearest island of Ha'afeva to improve communications and provide early warnings. The team also installed a **multi-hazard warning system** that is linked to the Meteorology office to allow them to track the activities of the active volcanoes.
  - Also under the PREP project, the **payment of parametric insurance** was made on November 2022 in anticipation of the cyclone season for FY 2022.

- **PREP** will also construct the MET & NEMO headquarter building at Matatoga as one of its last components. This has been pushed forward to the current FY, and it is still at the design and procurement stages, with slight delays given the increased revision to the cost of the building and also the relocation of Tonga Gas.
- Resilience to Climate Change key milestone is the ambitious target to **plant 1 million trees** to meet the zero-carbon emission target under NDC by 2025 started by the Forestry Division of MAFF has begun with the planting of 3 traditional trees, the Sandalwood, Heilala and Coconut. Close to 3,000 seedlings of various plants have been distributed. This initiative has been rolled out to churches, schools, women and youth groups. The Tongan government funded \$1.5m for **Climate Change Programs**, which was led by the Climate Change department and NEMO department of MEIDECC. An estimated total of \$0.6m has been used to date.
- The Prime Minister's Office also contributed to the efforts in this area by prioritizing the mainstreaming of **Risk Informed Development** into the MDA's Corporate Plans for FY 2024 including is the mainstreaming of the **Risk Tool Kit** component to the NIIP Project Proposal Application (PPA) sections and as part of the Multiple Criteria Assessment (MCA) prioritization process reflecting the confirmed prioritized infrastructure projects.
- The **Tonga Energy Act and TERM Plus** were both approved in 2022 and have ambitious targets to be achieved. An allocation of \$4.4m was approved for implementing of seven critical areas such as Energy Supply, Energy efficiency, Electricity generation and distribution, Energy security transportation, Gender, Data collection & training.
- The **Tonga Renewable Energy Project (TREP)** with a development funding of \$4.4m contributes to access clean, resilient, and affordable energy, to support Tonga's contribution to mitigating the impacts of climate change. The project had used \$3.97m in its efforts.

#### c. Strengthen the compliance with Building Code

The ongoing efforts to update the building codes to include resilient buildings are applied in Building Back Better initiatives, such as the **Safer School Infrastructure Project**. Phase 1 and Phase 2 of the Safer Schools Projects have passed the design and supervision firm contracts signing. Phase 1 is focused at Tonga College Dormitory and Tsunami Schools while Phase 2 is focused on Risk based schools. Greater compliance of the Public to Building Code and Standards in the first six months reflects that there is an improvement in compliance with the building code, such as meeting targets within inspection, compliance and enforcement activities.

#### d. Climate Change

The ADB Trust Fund is the primary fund for Climate Change related projects, operations and activities. In the FY 2023, the fund has been accessed for several operations and activities by MEIDECC, contributing to Resilience and Climate change. Such operations include the Meteorology department of MEIDECC successfully installing **automated weather stations** throughout Tonga, capturing weather observations and climate data, which are turned into climate reports used by health, agriculture, water research stakeholders. A donation of **solar street light systems** from the People's Republic of China was received by the Department of Energy of MEIDECC and was to be rolled out to the communities in FY 2023.



**Priority activities FY 2024 for GPA 1 [Forward looking]**

- Priority Activities to build Resilience against Climate Change & Disaster Risks towards building back better;
- Priority Activities to build Resilience against Pandemic Crisis including the rebuilding of Vava'u Hospital; and
- Priority Activities to Resilience to Economic Crisis.

**GPA 1 BUDGET FY 2023-2024****Table 3: Detailed Budget FY 2023 - 2024 Allocation for GPA 1**

GPA 1: Building Resilience and safer platform to natural disaster & Climate Change	2022/23				2023/24	
	Original Estimate (\$m)		Estimated Outturn (Revised Estimate) (\$m)		Original Estimate (\$m)	
	Recurrent	Development	Recurrent	Development	Recurrent	Development
Climate Change Department	1.5		1.2		1.5	
Disaster Management Department						0.2
Tonga Volcanic Eruption & Tsunami		33.2		27.9		12.0
DFAT Budget Support		13.1		13.1		10.4
Tonga Climate Resilience Transport Project- TCRTTP						14.6
Pacific Resilience Program (PREP)		7.3		4.7		11.7
Integrated Urban Sector Resilience Project (IURSP)		6.5		1.3		4.0
Climate Change Trust Fund				2.3		2.0
TREP - Tonga Renewable Energy Project		4.4		2.5		2.8
Water Management Project		5.0		3.0		8.0
Tonga Safe and Resilient Schools Project (IDA 19)						5.5
Nationwide Early Warning System		1.1		1.1		6.2
Tonga Coastal Resilience Project		0.8		0.5		
Other		4.8		3.6		1.8
<b>Sub-Total</b>	<b>1.5</b>	<b>76.1</b>	<b>1.2</b>	<b>60.0</b>	<b>1.5</b>	<b>79.2</b>
<b>TOTAL</b>		<b>77.6</b>		<b>61.2</b>		<b>80.7</b>

Note [1] – MEIDECC \$1.5m in FY 2023-2024

Source: Ministry of Finance (MOF)

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

- Policy measures to strengthen social protection (the poverty target 3.1 percent of the population is in absolute poverty), through providing ongoing support:
  - Monthly allowance for elderly people and those with disabilities;
  - Aged care services provided by Ma'a Fafine mo e Fāfili, NGOs;
  - In-kind support towards poor households (water-tanks, sanitary facilities etc.);
  - Development project to support the development of the subsistence economy (TRIP);
  - Poor households (SET project);
  - Housing Support;
  - Electricity tariffs support for poor households; and
  - Women Micro-credit Scheme.
- Government relief and recovery support assistance for affected households.

**GPA 2: Review of Performance in FY 2023**

The focus of this priority agenda continues to emphasize efforts in recovery of the share of the population which was significantly affected both during and after the post COVID-19 pandemic. The focus was mainly on assistance to the vulnerable and marginalized population such as the elderly and special needs, women groups through development loans, grants and micro-finance loans, provision of water tanks and sanitation facilities, direct government assistance to the

constituencies, electricity lifeline tariff and tariff subsidy to all households. There are two (2) focus areas for review:

a) **Policy measures to strengthen social protection (the poverty target 3.1 percent of the population are in absolute poverty) through providing ongoing support**

- There has been continuous support to the elderly community as **monthly allowances**, including some increases in the monthly allowances. The operations of the National Retirement Benefit Fund continued to expand from manual distribution to direct deposits to member's bank accounts.
- NGOs contributed by providing **awareness training** by the Ma'a Fafine mo e Fāмили. incorporation specifically for their early intervention workers about COVID-19.
- Since the launch of the **Water Tank Project** in 2020, 8,576 water tanks have been requested. By January 2023, 5,042 water tanks had been installed, as reported by MEIDECC.
- Upgrading of **sanitation facilities** is also a focus for the vulnerable population. The Ministry of Infrastructure's efforts prioritized the HTHH recovery. However, the PREP project component 2 contributed by providing **WASH facilities** to 13 schools across the country.
- The continuous collaboration between MAFF, Nishi Trading and MORDI in development projects to support the development of the subsistence economy continues to strengthen the subsistence economy through the **Tonga Rural Innovation Project (TRIP)**.
- The **Skills and Employment for Tongans (SET) project** has components that focus on the Poor Households, such as the SMAs mentioned in GPA 1. The purpose of the **SMAs is also for food security** for disadvantaged households in the villages. The SET project also extended its assistance and support as cash by **paying school fees** of 3,849 secondary students from disadvantaged households valued at \$962,250.
- The government extended support as part of COVID-19 and HTHH relief assistance through the **government lifeline tariff discount** scheme and supporting subsidies for every household, which consumed below 150 kWh per month.

b) **Government relief and recovery support assistance for affected households**

In terms of housing support, there is a connected story to previous disasters which forms the basis for more recent recovery housing support such as the HTHH post affects.

Reconstruction in the past 2 years of residential houses damaged by TC Gita and Harold enhanced the standard of living of the people in those affected areas. The same program applies to the **HTHH recovery efforts**, whereby the majority were rebuilding of displaced communities as well as renovation of other affected communities.

- The principle of **building back better** was applied to enhance standard of living not only by providing assistance towards residential houses but also by relocating to higher grounds to mitigate the impacts from future sea level rises and other natural disasters.
- The design of these buildings is more inclusive because it provides better **access for the vulnerable people** both at their homes and public places.
- MOI reported the **recovery reconstructions** of 238 completely destroyed and severely damaged residential buildings by the HTHH volcanic eruption.

- The government, through the Ministry of Agriculture, showed significant efforts in implementing the **Food Security Preparedness Program** for COVID-19 pandemic as well as recovery and rehabilitation for those affected after the HTHH volcanic eruption.
- Government relief and recovery support included tractors for ploughing and hours of ploughing subsidized by the government and other supporting reliefs for agriculture activities provided to the country. In addition, there were also **Humanitarian Cash Transfers** \$1.5m to support 3,000 beneficiaries (Phase 1 and Phase 2) with the grant support by UNICEF.

### Priority activities FY 2024 for GPA 2 [Forward looking]

- Develop an appropriate, safe and quality range of integrated aged care services to support elderly persons and people with disabilities (MIA);
- Improve Water & Sanitations in the community (MEIDECC, Local Government PMO);
- Development project to support the development of the subsistence economy (MAFF (MORDI, MOF);
- Implementation of the five-year Integrated Development Plans for all Outer Islands (Vavau, Ha'apai, 'Eua and the Niuas) (Local Government & National Planning-PMO, MFA);
- Support skills development and lifelong learning opportunities (please refer to GPA 4 below) (MET, MIA);
- The Government of Australia has supported additional finances under the DFAT Budget Support towards vulnerable groups including women, disabled and elderly affected by the HTHH tsunami. Trainings and consultation were conducted by the Ministry of Internal Affairs and Ministry of Education for these activities;
- The Skills & Employment for Tonga Project has disbursed about 46 percent of development finances to date to support Conditional Cash Transfers, TVET Provisions, and enhancing Opportunities for labour migration. During the current FY the Project has provided scholarships and grants, and is extended for another year to continue support for these activities;
- Implementation of the Affordable Housing Scheme (MOI, MIA, MLNR, MOF); and
- Implementation of the Returnees Policy (MFA, MOP, MOF, MIA).

## GPA 2 BUDGET FY 2023-2024

Table 4: Detailed Budget FY 2023 - 2024 Allocation for GPA 2

GPA 2: Poverty and Social Protection	2022/23				2023/24	
	Original Estimate (\$m)		Estimated Outturn (Revised Estimate) (\$m)		Original Estimate (\$m)	
	Recurrent	Development	Recurrent	Development	Recurrent	Development
Note [2]	12.1		12.9		12.3	
Skills & Employment for Tongan Project		2.6		4.0		8.1
Intergrated Age Care new building						2.0
Outreach and Community Consultations		0.5		0.5		0.5
DFAT Budget Support		6.2		5.6		
Other						1.2
<b>Sub-Total</b>	<b>12.1</b>	<b>9.3</b>	<b>12.9</b>	<b>10.1</b>	<b>12.3</b>	<b>11.8</b>
<b>TOTAL</b>		<b>21.4</b>		<b>23.0</b>		<b>24.1</b>

Note [2] – MIA \$6.2m, Ministry of Finance (Grant – Vulnerability & Social Welfare \$6.1m)

Source: Ministry of Finance (MOF)

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

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

- Illicit Drugs Action Plan focuses on three areas:
  - Demand Reduction;
  - Supply Reduction; and
  - Harm Reduction.

#### **GPA 3 Review of Performance in FY 2023**

This will be the third consecutive year of implementing the National Action Plan for Illicit Drugs (NAPID) by the line ministries that have significant roles in National Security. Continuing the three (3) key strategic outcome areas of Supply reduction, Demand reduction and Harm reduction, there have been continuous efforts from responsible ministries as outlined by the NAPID strategy.

#### **a) National Action Plan for Combating Illicit Drugs (NAPID) Fund**

- A total of **\$7m TOP** was allocated in the current financial year for the activities listed in the **National Action Plan for Combating Illicit Drugs (NAPID)** to address key strategic outcome area three (3): supply reduction, demand reduction and the harm reduction of illicit drugs.
- Illicit Drugs Response Fund Projects approved by the Steering Committee targeting to:
  - **Supply Reduction:** Tonga Fire and Emergency Services - Hazmat Training for TFES Staff \$35,000, Hazmat Facility \$280,000, Ha'asini Fire and Police Sub Stations and Two New Staff Quarters \$1.36m; Speed Detection Devices \$55,000, UAV Drone, Patrol Electric Bikes, Handheld Backscatter, Covert Audio/Visual Recorder and Surveillance Cameras Youth Centre, Building extension, Water policing vessel and Drug test and breathalyzer.
  - **Harm Reduction:** Prisons Department (Construction of Hu'atolitoi Security Fence \$1.5m)
  - **Demand Reduction:** NGO-Dare to Dream (Returnees Rights - Building Back Stronger \$12,000).

#### **b) Established a new Division of Prisons Department named as Illicit Drug Control Division**

- The Prisons Department established a new Division named as Illicit Drug Control Division to oversee the drug inmates in the Prison. This Division is assisting the Commissioner in coordinating the reviewing of Prison's Act to strengthen these acts to combat Illicit Drugs by reviewing and amending, for instance the Prisons and Probation Act. This review targets strengthening the integration programs for prisoners being released both pre and post release.
- The Ministry of Police, which is the lead ministry of the NAPID strategy, strengthened its capacity by completing the piloting of the Youth Diversion Scheme (YDS) Training on how to supervise and handle youth prisons appropriately in the District Station cells.
- Last, a collaboration between HMAF, MORC and the Ministry of Police increasing their capacity of Supply, Demand and Harm reduction through increasing patrol services in air, marine and land.
- The Fangatongo Military Camp has begun construction and has completed the foundation. The remaining phases for the works are slow and expect to be pushed for outer years. The Leadership Center at Touliki is still under construction, with ongoing works to

be completed during the year. (\$7m Development Budget). In supporting national defense and reducing use of illicit drugs, the Government of Australia and New Zealand provided assistance to HMAF for maintenance of naval ships, communications, and other HMAF utilities. The assistance continues to provide annual military training in New Zealand, Australia and the USA.

- Drug and Alcohol Treatment is currently supported by the Government of New Zealand through technical assistance and training conferences provided under the Ministry of Health for preventative measures on the use of illicit drugs. (\$1.3m Development Budget).
- The Tonga Police Development Program is still underway with spending on further improvements to the completed Longolongo Police Training center in construction of a parking space. The technical consultants and other support have been ongoing with the Tonga Police supported by the NZ Police. (\$1.3m Development Budget)

### Priority activities FY 2024 for GPA 3 [Forward looking]

- Strengthen collaborations amongst the agencies responsible for National Security (Prisons, HMAF, MOP, MORC);
- Review relevant Act, Regulations and Policies to enforce safety and secure society (MOJ, Prisons Department);
- Strengthening existing reintegration and rehabilitation program for former prisoners, deportees and rehabilitated drug users (Prisons Department, MOH);
- In supporting national security and reducing the use of Illicit drugs, Governments of Australia and New Zealand provided assistance for maintenance of naval ships, and HMAF communications. They have also funded military training in NZ and the USA. The Fangatongo Military Camp foundation has completed the construction of foundation and expected to proceed during the year;
- Drug and Alcohol Treatment is currently supported by Government of New Zealand through technical assistance and training conferences provided with preventative measures on the use of illicit drugs;
- The Tonga Police Development Program is still underway with improving Longolongo Police Headquarters including a parking space constructed; and
- Other projects include MFAT funding for the Tonga Director of Public Prosecutor, improved Court Management system, and Pacific Detector Dog Program that are supported under the Ministry of Justice, Attorney General's Office and Ministry of Police.

## GPA 3 BUDGET FY 2023-2024

**Table 5: Detailed Budget FY 2023 - 2024 Allocation for GPA 3**

GPA 3: Combat Illicit Drugs	2022/23				2023/24	
	Original Estimate (\$m)		Estimated Outturn (Revised Estimate) (\$m)		Original Estimate (\$m)	
	Recurrent	Development	Recurrent	Development	Recurrent	Development
Note [3]	41.3		36.7		40.8	
Support to HMAF		7.0		6.9		11.6
Drug and Alcohol Treatment		1.3		1.3		1.5
Tonga Police Development Program		1.3		0.5		7.4
Other		2.4		2.3		0.9
<b>Sub-Total</b>	<b>41.3</b>	<b>12.0</b>	<b>36.7</b>	<b>11.0</b>	<b>40.8</b>	<b>21.4</b>
<b>TOTAL</b>	<b>53.3</b>		<b>47.7</b>		<b>62.2</b>	

Note [3] – MOF \$2.9m, HMAF \$12.0m, Ministry of Police \$13.3m & Ministry of Fire Services \$4.5m, Prisons Dept. \$4.5m, MORC (Border Management Division and Intelligence Unit) \$2.7m

Source: Ministry of Finance (MOF)

## 4.2 Thematic Area 2: Quality of Services and Affordability

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

In the light of recent developments, the Budget Strategy identified six (6) areas of priority within the theme of education for all, implemented through this Budget Statement:

- Scholarships and subsidies per student to all schools;
- Tonga National University;
- Continue support towards Early Childhood Education (ECE) and Primary extension to Form 1 and 2;
- Completion of the school reconstruction and repair programs: Tonga Safe and Resilience School Project, Inclusive Education Project (UNESCO), Tonga Skills Development;
- Recovery support (e-learning programs); and
- others: school drop-out and unemployment, cost recovery measures.

### GPA 4 Review of Performance in FY 2023

The primary focus of GPA 4 is to ensure improved education for all and encourage both academic and vocational knowledge and skills. Listed below are the achievements delivered by the Ministry of Education in partnership with Non-Government Schools in Tonga.

#### a) Scholarships, Subsidies and the Tonga National University

- A total of \$15.7m allocated to **scholarships** and student support during the COVID-19 period;
- Government supported **subsidizing school fees, subsidies to non-government schools** during the COVID-19 period;
- A major milestone in education for Tonga was the **preparation and the establishment of the Tonga National University**.

#### b) Continue Support towards Early Childhood Education and Primary extension to Form 1 and 2

- The **Early Childhood Education (ECE) Program** has successfully been established with a new official syllabus completely in place;
- The **curriculum was reviewed and launched** following the previous ten years' curriculum that had preceded;
- Government primary schools continue to extend the classes from class 6 to forms 1 and 2 aim to **encourage free education up to forms 1 and 2** and education pathways both academic and vocational.

#### c) Completion of the school reconstruction and repair programs: Tonga Safe and Resilience School Project, Inclusive Education Project (UNESCO), Tonga Skills Development

- The continuity of the **review and implementation of the National Curriculum** by the Ministry of Education;
- **Cabinet approved the National Assessment Framework** designed to provide evidence about students' achievements at a particular stage of education, in identified curriculum areas;
- In progress is the bidding process for the **EMIS software**;
- Safer school project continues its **Part 1: Tonga College Dorm and Tsunami Schools** and **Part 2: Lot 2: Risk based schools**;
- The **completion of the new Tonga Side School building at one location** which addressed the previous challenges of it being at different locations.

#### d) Recovery support (e-learning) and others: School drop-out and unemployment, cost recovery measures

- In place and ongoing of the **Tonga Student Support Fund Dropouts Program** benefitting 442 beneficiaries across the nation;
- The government established the **laptop initiative to students in forms 6 & 7 and later also included form 5** at a total cost of TOP\$1.53m for purchasing 2000 laptops;
- Ongoing is maintenance and or renovation of school buildings to **include Forms 1 & 2 in primary schools** particularly to address school drop out by encouraging students to continue education after Class 6 and **lifting the national examination** from Form 5 to only **Forms 6 and Form 7**;
- The **teacher's registration increased to date at 99 percent** reflecting more recognized qualification for teachers towards quality education.

#### Priority activities FY 2024 for GPA 4 [Forward looking]

- Support the operation of the Tonga National University;
- Skills and Employment Tonga (SET);
- Subsidies for ECE primary schools;
- EMIS, Curriculum and Assessments;
- Inclusive education – less fortunate (disability);
- Digital reform (information system), e-health; and
- Provision of school meals for primary school children.

### GPA 4 BUDGET FY 2023-2024

**Table 6: Detailed Budget FY 2023 - 2024 Allocation for GPA 4**

GPA 4: Improve Education for ALL	2022/23				2023/24	
	Original Estimate (\$m)		Estimated Outturn (Revised Estimate) (\$m)		Original Estimate (\$m)	
	Recurrent	Development	Recurrent	Development	Recurrent	Development
Note [4]	60.3		60.0		63.1	
Tonga Safe and Resilient Schools Project (IDA 19)		18.7		5.4		10.0
Scholarship		7.0		7.0		9.5
Skills & Employment for Tongan Project						15.1
WB additional budget for Tonga Side School				4.0		
THS Sports Complex				2.0		31.0
DFAT Budget Support		1.2		1.0		2.5
Inclusive Education Programme		1.2		1.2		
Tonga Education Support Activity (MFAT)				0.6		
Other		1.1		1.1		0.8
<b>Sub-Total</b>	<b>60.3</b>	<b>29.2</b>	<b>60.0</b>	<b>22.3</b>	<b>63.1</b>	<b>68.9</b>
<b>TOTAL</b>		<b>89.5</b>		<b>82.3</b>		<b>132.0</b>

Notes [4] – MET \$63.1m in FY 2024

Source: Ministry of Finance (MOF)

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

Considering recent developments, the Budget Strategy has identified four (4) areas of priority within the theme of quality and affordable healthcare, implemented through this Budget Statement:

- Coordinated Government responses to re-open border safely, through a phased approach:
  - June-July 2022 with commercial flights opening for our diaspora, business and others not tourism;
  - October-December 2022 as a 'new normal' with opening for tourism and longer-term international travel.

- NCD: Healthy Lifestyles and Preventative Measures;
- Health infrastructure and other health priorities:
  - Increasing focus to prevent the spread of Communicable Diseases (CD) such as COVID-19 and others;
  - Increasing focus to improve Universal Health Coverage and services such as the endeavour for 100 percent immunization as a preventative measure;
  - Improving public service delivery with better health information systems in place through the E-Health Project.
- Health Insurance Scheme.

### GPA 5 Review of Performance FY 2023

With the arrival of the COVID-19 pandemic on our shores, health services adapted to strive and provide the best health care services despite challenges such as increase of staff resignation in the health industries, Ministry of Health in collaboration with Non-Government Organizations achieved the list below:

#### a) Coordinated government responses to re-open border safely, through a phased approach

- The **close coordination between the Tongan government and development partners** on Tonga's preparedness and **vaccination coverage** aided Tonga during the pandemic;
- In place is the **Traffic Light System** following the first COVID-19 case and alignment with the emergency restrictions with regular press releases;
- **Vaccination roll-outs** significantly helped by lowering the risk of affected residents from severe conditions of the COVID-19 despite 12 deaths recorded from the 1<sup>st</sup> wave of cases;
- With the restrictions, **8,761 cases breached the COVID-19 restrictions** and received fines;
- As of 22 November 2022, Tonga has reached COVID-19 AstraZeneca **vaccination rate** of 98 percent (12 years old and above) that has completed the first dose and 92 percent that has completed its second dose. In addition, 55 percent had taken the booster dose and a further 2 percent had the second booster (Moderna). In addition, 54 percent (under 12 years old) have had the COVID-19 Pfizer with the first dose and 21 percent completed the first and second dose;
- **Tonga's border opened** in August to September 2022 restricting to Nationals and Foreigners meeting health requirements and to date have opened its borders to all including Foreigners whether or not they are vaccinated;
- With all these efforts the government implemented the \$60m Stimulus Package to provide financial assistance towards the key affected sectors due to COVID-19. The package was allocated by eight (8) clusters namely, Economic and Social, Education, Essential Services, Food Security and Livelihood, WASH, Logistics and Coordination, Safety and Protection and Shelter Clusters.

#### b) NCD: Healthy lifestyles and preventative measures

- The sustained prevalence of NCDs as the prime source of mortality in Tonga has instigated cognizance of the issue, thus leading to the commencement of the **National Strategy for the Tonga National Non-Communicable Diseases (NCD) Strategy in 2022**;
- Promote healthy eating by **subsidizing snapper fish for the local people** at affordable prices \$7 per kg. A total amount of \$0.78m TOP for snapper bought from fishing vessels.



## c) Health infrastructure, Health Insurance Scheme and other health priorities

- Completion of the Central Pharmacy Warehouse's construction;
- Funding secured and building of the Queen Salote Nursing School for the extension of existing Wards and preparation for future pandemics;
- Hand-over of Water, Sanitation and Hygiene facilities completed for Fasi moe afi Government Middle School (GMS), Hoi Government Primary School (GPS) and Ma'ufanga GMS.

**Priority activities FY 2024 for GPA 5 [Forward looking]**

- Ongoing health programs and activities (NCD, CD, UHC, E-Health, Design health insurance) (MOH);
- Improving Health Infrastructure (QSSN, Vava'u hospital, Dialysis Unit and National laboratory for testing illicit drugs) (MOH), Mu'a Health Centre;
- Implementation of the Tonga National Strategy for Prevention and Control of Non-Communicable Diseases 2021-2025 (Tonga Health/MOH);
- The Implementation Ministry of Health National Action Plan on emergency response to the pandemic and further development of the Vaccination Strategy; (MOH); and
- Health Workforce Development (MOH/PSC).

**GPA 5 BUDGET FY 2023-2024****Table 7: Detailed Budget FY 2023 - 2024 Allocation for GPA 5**

GPA 5: Improving Access to Quality and Affordable Healthcare system (incl. COVID-19, NCD & others)	2022/23				2023/24	
	Original Estimate (\$m)		Estimated Outturn (Revised Estimate) (\$m)		Original Estimate (\$m)	
	Recurrent	Development	Recurrent	Development	Recurrent	Development
Note [5]	54.8		54.1		55.7	
COVID-19 Support Program		31.4		20.8		2.8
Tonga Health Support System		5.8		5.7		2.9
Introducing E-Government through Digital Health		2.6		1.2		0.1
Preventative Support Programme		3.1		2.0		2.3
Health Corridors Programme				1.4		1.1
Central Pharmacy Warehouse				1.3		1.0
Other		1.9		1.8		0.1
<b>Sub-Total</b>	<b>54.8</b>	<b>44.8</b>	<b>54.1</b>	<b>34.2</b>	<b>55.7</b>	<b>10.3</b>
<b>TOTAL</b>		<b>99.6</b>		<b>88.3</b>		<b>66.0</b>

Notes [5] – MOH \$55.7m in FY 2024

Source: Ministry of Finance (MOF)

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

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

- Public Sector Reform Program (PFMA, JPRM);
- E-government project;
- Subsidize electricity tariff;
- Development projects (Integrated Urban Resilience Sector Project, Nuku'alofa Network Project, Outer Island Renewable Energy, Tonga Renewable Energy); and
- Asset Insurance Scheme.

## GPA 6 Review of Performance FY 2023

As the world is evolving more into the technological, digital and renewables in all areas of services being provided, reforms have been made by the government to adapt to these changes:

### a) Public Sector Reform Program

- **Policy Reforms** are monitored through the **Joint Policy Reforms Matrix (JPRM)** by the Ministry of Finance. The JPRM is grouping in three (3) areas as detailed below and the progress made in the last six months:

#### i). Strengthening Public Finance and Administration:

- Public Finance Management Act (PFM);
- Revenue Services Administration Regulations (Electronic Sales Register System);
- Public Service Fraud Policy and the Public Service (Disciplinary Procedure) Regulation amendment.

#### ii). Enhancing Resilience to Climate Change and Disasters:

- Amendment of the Emergency Management Act 2007 and rename it as National Disaster Risk Management (DRM) Act;
- Draft of the Multi-Hazard Early Warning System (MHEWS) Policy and review of the Treasury Instructions that govern the National Emergency Fund (NEF);
- Completed and approval of the National Social Protection Policy.

#### iii). Maximizing Human Capital and its economic returns and boost productivity:

- National Curriculum Framework and National Assessment Policy Framework;
- Qualification Authority Bill;
- Confirmed two exporters to pilot the Trusted Trader Program;
- Energy Bill

- Establishment of the new line ministry, Ministry of Fire Emergency Services;

### b) E-government project

- The e-government project has been formerly named the **Digital Transformation Division** under the Prime Minister's Office since its transition from MEIDECC. It is the overarching name for all e-government systems;
- An **E-government National Strategy** has guided all digital reforms in the government administration for efficient and effective sharing of data and information.
- The **Cyber Emergency Response Team (CERT)** of MEIDECC signed an agreement with the Government of New Zealand (CERT-NZ) for the cybersecurity workforce development for the next 3 years which aims to enhance the capacity of the staff.

### c) Reliable, safe and affordable water supply

- MOH, MLNR and Tonga Water Board (TWB) successfully completed the water testing and treatment of chemicals to all households in Ha'apai, Tongatapu and 'Eua that access the rain **water supply** to ensure the water is safe for consumption;
- The TWB has successfully completed the installations of the **water pumps** for the new 'Atataa residents in Masilamea and also Mango residents in Eua while continuing with the remaining areas and which is anticipated to be completed by the end of this year;
- The Ministry of Land & Natural Resources continues its **Water Management Program** inventory and completed the whole of Tonga;
- The upgrading of the Water Supply System using Solar Farm Renewable Energy funded by MFAT (NZ).

### d) Affordable Renewable Energy

- The ongoing threats of climate change to Tonga are escalating hence the emphasis on renewable energy development projects which target to meet RE 70 percent in 2025. There

are various projects currently being implemented such as **Integrated Urban Resilience Sector Project, Nuku'alofa Network Project (\$11.6m), Outer Island Renewable Energy (TOP 9.6m) and the Tonga Renewable Energy Project (TOP21.7m)** to name a few;

- The ongoing support from the **People's Republic of China as 250 solar street lights** were donated to ease the electricity bill burden on the communities;
- The **Tonga Energy Act and TERM Plus** were key milestones in driving Renewable Energy that are mentioned in GPA 1 which are worth referencing in this section.

#### Priority activities FY 2024 for GPA 6 [Forward looking]

- Affordable Renewable Energy (MEIDECC);
- Digital Transformation System (PMO);
- Reliable, safe and affordable Water Supply (TWB-MPE, MOH, MLNR, MEIDECC); and
- Anti-Corruption Act implementation/operationalize as the Office of the Anti-Corruption Commission is established and will start operation in FY 2024 (PMO, LA).

### GPA 6 BUDGET FY 2024

**Table 8: Detailed Budget FY 2023 - 2024 Allocation for GPA 6**

GPA 6: Building Quality and Accessible to Government Services	2022/23				2023/24	
	Original Estimate (\$m)		Estimated Outturn (Revised Estimate) (\$m)		Original Estimate (\$m)	
	Recurrent	Development	Recurrent	Development	Recurrent	Development
Note [6]	193.0		164.0		178.3	
TREP - Tonga Renewable Energy Project		21.7		20.2		21.2
Nuku'alofa Network Upgrade Project		11.6		19.2		4.0
Outer Island Renewable Energy Project (OIREP)		9.6		10.3		0.8
DFAT Budget Support				7.8		3.3
Integrated Urban Sector Resilience Project (IURSP)		4.0		1.0		9.9
Tonga Digital Government Support Project (TDGSP)		4.8		0.7		7.6
Other		2.3		2.2		1.7
<b>Sub-Total</b>	<b>193.0</b>	<b>54.0</b>	<b>164.0</b>	<b>61.4</b>	<b>178.3</b>	<b>48.5</b>
<b>TOTAL</b>		<b>247.0</b>		<b>225.4</b>		<b>226.8</b>

Note [6] – Ministry of Public Enterprises \$1.9m, MEIDECC - \$7.4m, MORC \$8.3m, MOF \$102.2m, Palace Office \$4.9m, Legislative Assembly \$15.0m, Tonga Office of Auditor General \$2.2m, Office of the Ombudsman \$1.6m, PMO \$10.2m, Electoral Commission \$1.0m, AGO \$3.3m, MLNR \$6.5m, PSC \$2.1m, Tonga Statistics Department \$3.0m, MOJ \$7.9m, Anti-Corruption Commission \$0.8m

Source: Ministry of Finance (MOF)

### 4.3 Thematic Area 3: Progressive Economic Growth

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

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

- Promote new investment through Public Private Partnership (PPP) on property development;
- Recovery supports towards the key economic sectors (agriculture, fishery, tourism and manufacturing):
  - Import Substitution, Increased Exports, Food Security.
- Government Development Loan (GDL) facility, syndicate loan, and partial guarantee;
- Government relief and recovery support assistance (businesses, employment); and

- Tariff support (incl. businesses).

### **GPA 7 Review of Performance FY 2023**

This GPA focuses on working towards sustaining the economic growth of the country to support a more progressive life for all Tongans. Since the HTHH volcanic eruption and the COVID-19 pandemic outbreak, trade opportunities for Tonga were on shaky ground because of lockdowns and border restrictions. The following government interventions significantly influenced the recovery efforts of the country.

- **Recovery Supports and Economic Development towards the key economic sectors such as:**

#### **a). Fisheries Sector**

The Ministry of Fisheries activities such as farming various Aquaculture products are targeted to boost exports to our interested partners such as Hawaii, Japan and China. These products included:

- Pearl (tofe) farms across (Tongatapu, Vava'u and Ha'apai), Sea-cucumber in Tongatapu and Vava'u, Giant clams (vasuva), finfish, mud crab, seaweed and prawns and squid fishery development;
- Further development of Deep-Sea fishing of Tuna and Snapper, Long line fishing using Fish Aggregation Devices (FAD);
- **Subsidies** from the government through the fishing equipment, importing bait and fuel for private fishermen;
- Implementation of the **Aquatic Animal Health (Biosecurity) and the Convention for International Trades of Endangered Species (CITIES)**.

#### **b). Agriculture Sector**

The rapid response by the Ministry of Agriculture, Food and Forestry after the HTHH volcanic eruption mobilized the various assistance from the Government and development partners to the agriculture sector:

- Completed the **stocktaking of all the agriculture types, locations and farmers**, it contributed to motivating the farmers to register for the on-going relief assistance from the Government through micro-loans schemes;
- Improving **agriculture exports of kava** (contributing to 29.5 percent of total exports according to TSD Trade Statistics 2022);
- Improvement in the **Public Private Partnership** between the Ministry and its stakeholders by **subsidizing costs** of production such as ploughing hours and seedling root crops (taro/yam/tapioca);
- Continued facilitating of the **Tonga Circular Economy System** which was approved by Cabinet to target food security, renewable energy and improve local production contribute to the economy. Two components of the project are i). Feed mill and ii). Broiler production;
- Responding to emerging **Pest and Disease threats to horticulture in the Pacific Islands** also known as the **Plant Health Clinic** is on progress;
- Import Substitution: Continued **distribution of the vegetable, sandalwoods, livestock** across Tonga; and
- Continued supporting towards **packhouses**.

#### **c). Tourism & Businesses Sector**

This sector was significantly affected by the dual disasters of the HTHH volcanic eruption and the COVID-19 border restrictions and lockdowns. However, the Government has made

efforts to strengthen the sector through government **Relief Assistance** to finance the **Implementation of the Tourism Recovery Plan** as detailed below:

- Conducted trainings for the **Local Tourist Operators** to enhance the marketing and hospitality skills as part of preparedness for the opening of the border;
- Completing the **accommodations & restaurants survey** on the status of the infrastructures following the HTHH eruption;
- Implementation of the Beautification Program through upgrading the waterfront areas, upgrading of roads to historical/tourist sites and upgrade of the public facilities that were damaged by the HTHH tsunami.

#### Priority activities FY 2024 for GPA 7 [Forward looking]

- Continued supporting towards the Public-Private Partnership (PPP) investment initiative to restore growth in the key economic sectors;
- Development of Aquaculture – farming of pearl, giant clams, sea cucumber, finfish, mud crab, seaweed, prawns; implementation of Aquatic Animal Health (Biosecurity) and Convention for International Trades of Endangered Species (CITES);
- Development of new fisheries – e.g., squid fishery, pelagic fisheries, Fisheries Aggregative Device (FAD);
- Development and Management of existing commercial fisheries, Tuna, Deep-water Snapper, Sea Cucumber, Marine Aquarium, Seaweed, and Coastal fisheries (Ministry of Fisheries);
- Tonga Circular Economy System (maize, poultry & organic fertilizer) (MAFF, MPE, Ministry of Fisheries MTED);
- Implementation of the Tourism Marketing Plan;
- Implementation of the Tourism Recovery Plan (MOT);
- Strengthening of the Export Marketing Program; and
- Develop an Import Substitution Strategy (MTED, MAFF, Ministry of Fisheries).

### GPA 7 BUDGET FY 2023-2024

**Table 9: Detailed Budget FY 2023 - 2024 Allocation for GPA 7**

GPA 7: Creation trade opportunities, private sector development	2022/23				2023/24	
	Original Estimate (\$m)		Estimated Outturn (Revised Estimate) (\$m)		Original Estimate (\$m)	
	Recurrent	Development	Recurrent	Development	Recurrent	Development
Note [7]	39.2		31.7		33.8	
Tonga Volcanic Eruption & Tsunami		21.0		11.0		0.4
Tonga Fish Pathways Project-IDA		6.4		3.9		6.6
Economic Development under MAFF&Fisheries						6.2
Support to Lulutai (Air Fiji)						0.8
National Museum of Tonga(Saudi Arabia)						1.0
Training &Workshop						1.8
Tonga Central Packhouse Project (Vaini)		6.1		0.0		
Tonga Australia Support Program		4.8		0.3		0.5
SET Project CSU		3.7		3.2		1.1
Tonga Rural Innovation Project - Phase II		2.8		1.2		0.7
GGP & NPGA project		2.3		2.0		2.2
Other		5.6		3.1		5.1
<b>Sub-Total</b>	<b>39.2</b>	<b>52.7</b>	<b>31.7</b>	<b>24.7</b>	<b>33.8</b>	<b>26.4</b>
<b>TOTAL</b>		<b>91.9</b>		<b>56.4</b>		<b>60.2</b>

Note [7] – MTED \$6.6m, Ministry of Fisheries \$4.6m, MAFF \$9.4m, Ministry of Tourism \$7.7m, MOF \$5.5m.

Source: Ministry of Finance (MOF)

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

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

- Development Projects: Tonga Climate Resilience Transport Project (TCRTP), Fanga’uta Lagoon Bridge, Port, Nuku’alofa Ports Upgrade, Non-project Grant Aid, GGP;
- Parliament Building (new);
- More safe, secure and affordable transport;
- National Infrastructure Investment Plan (NIIP); and
- Well maintained infrastructure and asset insurance scheme.

### **GPA 8 Review of Performance FY 2023**

Government recognized infrastructure development as one of its priorities given its contribution towards Economic Growth. Better roads, improved air and sea transportation are crucial for transporting goods and services, especially from the outer islands. On that note, the construction sector is a key factor under this GPA, which drives the economic growth in Tonga. The following outlines the key deliverables under this GPA:

#### **a) Review of the National Infrastructure Investment Plan (NIIP) 2030**

- The **NIIP 3** was endorsed by the NIIP Taskforce and Technical Working Committees and Project Aid Development Coordination Committee (PADCC) and approved by the Cabinet in August 2022;
- Following the HTHH volcanic eruption, the Government with the technical support from the Pacific Resilient Infrastructure Investment Facility (PRIF) updated the NIIP to reflect the infrastructure priorities, which were identified by lead ministries and public enterprises. **The NIIP + HTHH draft report was endorsed by the NIIP Committees and approved by Cabinet in February 2023** consisting of 47 new projects of which 21 were directly related to HTHH and seven (7) were just partial;
- Major projects include: **Transportation Infrastructure Development** (Air, Sea, Land), **Safer Schools Project** and the **upgrading of Health Facilities**;
- **Ongoing projects include:** Tonga Climate Resilience, Tonga Transport (TCRTP) led through an improved Civil Aviation safety and security, Domestic Port infrastructure, roads, Fanga’uta Lagoon Bridge and Queen Salote Wharf.

#### **b) HTHH Volcanic Eruption and Tsunami Recovery Project Progress**

- Government **mobilized relief assistance** immediately following the volcanic eruption. Each sector was required to develop respective recovery plan which was approved by Cabinet in February, 2022. Governments recovery plan prioritized residential housing reconstruction and secondary as phase two (2) are the reconstruction of infrastructure that was damaged by the HTHH, for example, roads, foreshore, and so forth;
- The small and remote islands of **Mango and Hihifo** were also part of those who were directly affected by the tsunami, and residents were displaced and relocated to a safe area. The reconstructions of residential housing must adhere to the building codes.

#### **Priority activities FY 2024 for GPA 8 [Forward looking]**

- Transport Infrastructure Development (Air, Sea, Land)- (MOI, TAL-MPE, PAT MPE, MEIDECC); and
- Improve Public Infrastructure (MOI, LA, MOJ, Vava’u Hospital, National Museum).

## GPA 8 BUDGET FY 2023-2024

Table 10: Detailed Budget FY 2023 - 2024 Allocation for GPA 8

GPA 8: Improve Quality to Public Infrastructure	2022/23				2023/24	
	Original Estimate (\$m)		Estimated Outturn (Revised Estimate) (\$m)		Original Estimate (\$m)	
	Recurrent	Development	Recurrent	Development	Recurrent	Development
Note [8]	19.9		18.2		20.0	
Tonga Climate Resilience Transport Project (TCRTP)		17.5		13.0		36.9
Parliament New Building		11.6		6.0		2.0
Nuku'alofa Ports Upgrade Project - Queen Salote Wharf		7.7		7.3		48.8
Fanga'uta Lagoon Crossing Bridge		6.3		0.3		0.3
Tonga Volcanic Eruption & Tsunami		3.0		2.0		8.0
Other		1.1		1.0		0.2
<b>Sub-Total</b>	<b>19.9</b>	<b>47.2</b>	<b>18.2</b>	<b>29.6</b>	<b>20.0</b>	<b>96.2</b>
<b>TOTAL</b>		<b>67.1</b>		<b>47.8</b>		<b>116.2</b>

Note [8] – MOI \$20.0m in FY 2024

Source: Ministry of Finance (MOF)

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

Considering recent developments, the Budget Strategy identified four (4) areas of priority within the theme, implemented through this Budget Statement:

- Access to Green Climate Fund;
- ADB/ WB Focal Office and Consultants to assist both the Government and ADB, Central Services Unit (World Bank);
- Tonga Australia Support Program; and
- Additional Budget Support.

### GPA 9 Review of Performance FY 2023

As all economies are moving to a more integrated approach regionally and internationally, it is critical for Tonga as a developing country to stay in touch and strengthen relations with its developing partners.

#### a) Significant changes:

The year 2022 was a big year for Tonga with various significant events starting off with the **election and** entering of the **new government** and Prime Minister. Like all major changes, there were modified policy priorities coupled with increased legal challenges to the election results;

- One of the new changes from the government was the appointment of a minister for Foreign Affairs. Previously this ministry was under the responsibilities of the Prime Minister. The **COVID-19 pandemic global outbreak** had its effects on Tonga causing disruptions to supply lines resulting with economic repercussions such as increasing price levels for domestic consumption. Adding to the disruptions caused by the pandemic was the **HTHH volcanic eruption tsunami and ash fall**. This prompted the significant aid funding from developing partners and the region to support the Kingdom but with the threat of the pandemic entering the country, mostly the support was delivered without direct contact with the locals. The

incredible support and aid from neighboring partner countries in the region just showcased the importance of partnerships in this ever-evolving world.

b) **Strengthened partnership**

**Nurturing partnership with accredited partner countries, regional and international intergovernmental institutions** is a critical component to make sure that it aligns with the Kingdom's foreign policy aimed at promoting national interest, security, and prosperity.

c) **Tonga Australia Support Program**

Australia is one of Tonga's major development partners which has a bilateral program with the government of Tonga. **Australian support program** has contributed to various sectors including health, economics, vulnerable groups and the aviation sector. During the recent visit by the Australia Minister for International Development early this year, three (3) bilateral agreements were signed with the Tonga Government:

- MOU in relation to the Pacific Australia Labor Mobility Scheme;
- MOU for Aviation Support;
- Additional Budget Support of AUD30m.

d) **Additional Budget Support**

Please refer to discussions of the status of progress of the Budget Support under GPA 6 for more details.

**Priority activities FY 2024 for GPA 9 [Forward looking]**

- Alignment of the bilateral engagement agenda to the GPAs and follow established priorities (MFA, MOF, PMO);
- Strengthening international & national coordination with Private Sector, Communities and NGOs (MTED, MFA); and
- Preparation of the next Strategic Development Framework (NPD-PMO).

**GPA 9 BUDGET FY 2023-2024**

**Table 11: Detailed Budget FY 2023 - 2024 Allocation for GPA 9**

GPA 9: Strengthen and Optimize Partnership	2022/23				2023/24	
	Original Estimate (\$m)		Estimated Outturn (Revised Estimate) (\$m)		Original Estimate (\$m)	
	Recurrent	Development	Recurrent	Development	Recurrent	Development
Note [9]	14.9		14.1		15.0	
Bilateral and Multilateral Strengthening Partnerships		2.4		2.1		2.0
<b>Sub-Total</b>	<b>14.9</b>	<b>2.4</b>	<b>14.1</b>	<b>2.1</b>	<b>15.0</b>	<b>2.0</b>
<b>TOTAL</b>	<b>17.3</b>		<b>16.2</b>		<b>17.0</b>	

Note [9] – Ministry of Foreign Affairs (MFA) \$14.5m, MOF (Project & Resilient Divisions) \$0.5m

Source: Ministry of Finance (MOF)

**4.4 Allocations of Budget to the Government Priority Agenda**

Table 12 illustrates the allocation of both the Recurrent Budget (\$419.5m) and Development Budget (\$364.7m) to each of the Government priority areas, noting the following highlights:

- To continue supporting the related HTHH reconstruction activities and government projects;
- In terms of the recurrent budget, the total allocation decreases by \$17.5m in FY 2024 from the current FY's original estimates, mainly attributed to a change in composition of allocation for the **GPA 3: Illicit Drugs**, **GPA 6: Government services** and **GPA 7: Trade and**



*private sector development.* This implies that the decrease in the recurrent budget allocation in FY 2024 from the current FY is not because of fewer resources made available, but a change in funding source.

**Table 12: Summary of Government Budget by Priority Areas**

Government Priority Areas		Original Estimates 2022/23			Budget Estimates 2023/24			Original Estimates 2022/23	Budget Estimates 2023/24	Variance
		Recurrent	Development	Total	Recurrent	Development	Total	%	%	\$m
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	%	%
1	Resilience	1.5	76.1	77.6	1.5	79.2	80.7	10.1%	10.3%	-3.1
2	Poverty & Social Protection	12.1	9.3	21.4	12.3	11.8	24.1	2.8%	3.1%	-2.7
3	Illicit Drugs	41.3	12.0	53.3	39.9	21.4	61.3	7.0%	7.8%	-8.0
4	Education	60.3	29.2	89.5	63.1	68.9	132.0	11.7%	16.8%	-42.5
5	Health	54.8	44.8	99.6	55.7	10.3	66.0	13.0%	8.4%	33.6
6	Government Services	193.0	54.0	247.0	178.3	48.5	226.8	32.3%	28.9%	20.2
7	Trade and private sector dev.	39.2	52.6	91.8	33.8	26.4	60.2	12.0%	7.7%	31.7
8	Public Infrastructures	19.9	47.2	67.1	20.0	96.2	116.2	8.8%	14.8%	-49.1
9	Partnerships	14.9	2.4	17.3	15.0	2.0	17.0	2.3%	2.2%	0.4
<b>Grand Total</b>		<b>437.0</b>	<b>327.7</b>	<b>764.7</b>	<b>419.5</b>	<b>364.7</b>	<b>784.2</b>	<b>100%</b>	<b>100%</b>	<b>-19.5</b>

Source: Ministry of Finance (MOF)

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

## 5. MACROECONOMIC STRATEGY, PERFORMANCE AND OUTLOOK

Over the medium term, the Government aims to maintain macroeconomic stability through closely monitoring of the fiscal framework. The Government in partnership with development partners, will continue to prioritize supporting economic growth through capital investment. The Government will strengthen its finances to reduce the risk of debt distress, while prioritizing financing plans to support economic growth. The prioritization of expenditure is essential, in order to maintain services in key areas such as education, health and infrastructures.

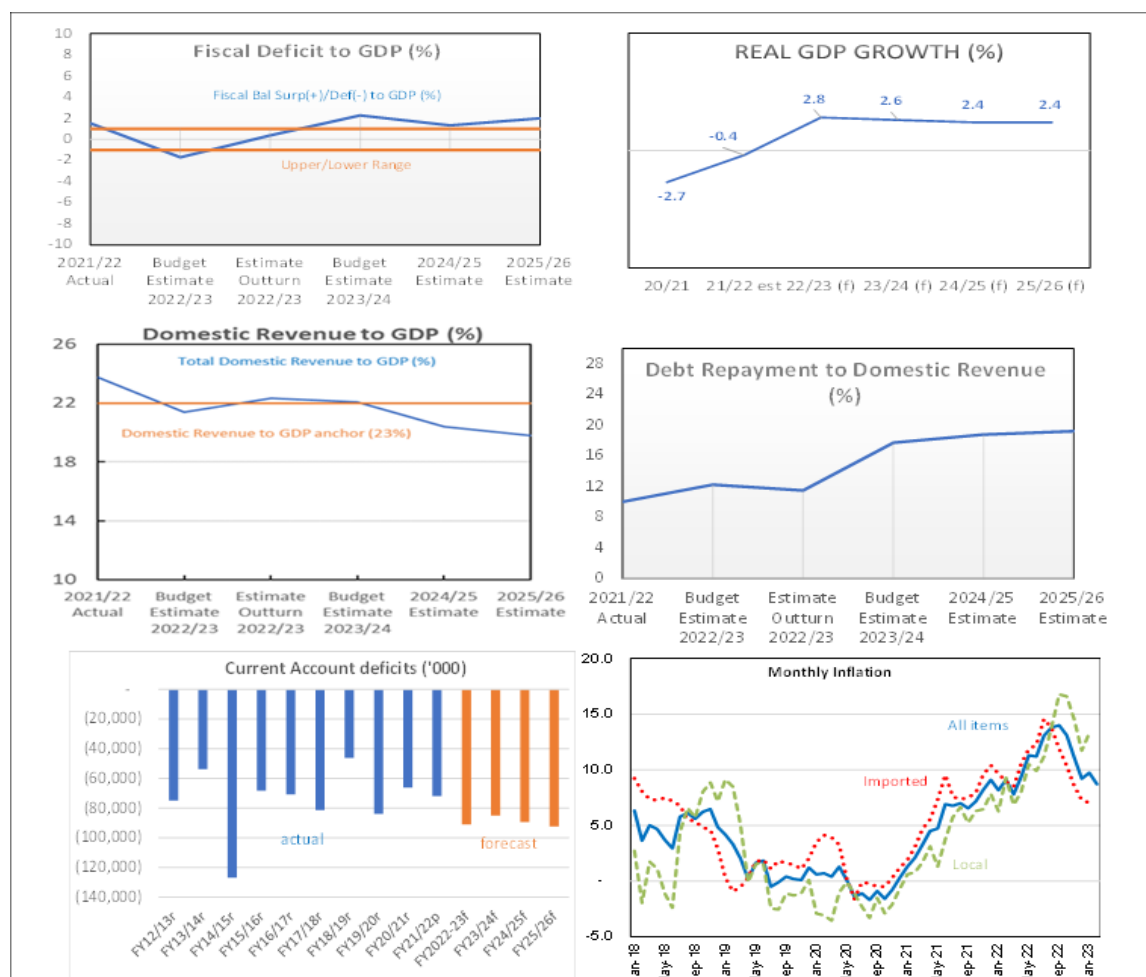
Delivering the GPA will require a clear and shared understanding of the economic reality facing Tonga.

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

- The medium-term growth was projected to an average of 2.5 percent, mainly driven by the construction sector and government investment. The expected economic recovery after the opening of international border in August 2022 was expected to further boost growth;
- Inflation is expected to moderate and ease below the 5 percent reference rate in 2023, but risks remain tilted to the downside because of factors such as China's re-opening, natural disasters and shortages in the semi-skilled labour market. On the outlook, inflation is expected to remain above 5 percent over the medium term;
- The aim is to have an average fiscal surplus of 2 percent across the FY 2024-FY 2026 period while addressing annual external debt obligations of near \$50m;
- The proportion between total debt repayment and domestic revenue is escalating, which reduces the fiscal space and restrains Government's attaining its growth objectives;
- The work on strengthening the revenue collection will continue to help the dual objectives of economic growth and debt repayment. The review of tax exemptions in certain areas will continue in FY 2024;
- The goal is to maintain prudence in expenditure by managing the set fiscal anchors, such as the public sector wage bill and loan obligations. The prudence in expenditures and

- alignment to Government priority areas will remain a priority;
- The forecasts indicate an increase in the current account deficit in the medium term (FY 2024-FY 2026);
- The respective key economic indicators trend is depicted in each graph below:

Figure 2: Key Economic and Fiscal Indicators



Source: Ministry of Finance (MOF)

Notes: Fiscal Anchors rules:

- Domestic Revenue to GDP (%) - that the revenue collection is expected to reach the target of at least 22 percent and above of GDP.
- Wage Bill (%) - that the wage bill will not exceed the threshold (less than 53 percent of Domestic Revenue or more than 45 percent of the Operating Expenses).
- Fiscal Deficit to GDP (%) - that the fiscal position will be around 1 percent (deficit/surplus) of GDP.
- External Debt to GDP (%) - that the debt level be maintained below target (at least 50 percent of GDP).

## 5.1 Economic Performance

Macroeconomic activity has normalized slowly, following the pandemic and HTHH eruption in January 2022. Government strong policy responses, coupled with financial support from our development partners and remittances, have helped to keep the economy afloat and protect the vulnerable. Tonga now faces a challenge of reconstructing its economy while coping with high inflation due to surging global energy and food prices. In the short term, the government has continued to implement expansionary fiscal policy, with a targeted spending on recovery reconstruction and social protection. In the medium term, macroeconomic reforms and increased investment will be implemented to help the recovery effort and reviving growth in the economy.

- **Economic growth:** The economic growth for FY 2024 is expected at 2.6 percent, reflecting an economic recovery after the international border re-opened in August 2022. The reviving of economic activities in the tourism sector contributed to the construction and agricultural sectors in leading to economic growth for FY 2023. In real GDP terms, the services sector accounts for the largest share (49.5 percent) of Tonga's GDP (FY 2024), followed by primary (17.9 percent) and industrial sector (13.4 percent). The provisional estimates for Tonga's nominal GDP were T\$1,480.3m.
  - ✓ Since the opening of the international border, tourist arrivals picked up, creating more demand for the tourism sector and other services sectors such as the transportation sector. The number of arrivals has reached the pre-COVID-19 period, with over 50,000 arrivals for the 12-months period to December 2022.
  - Over the medium term (FY 2024 - 2026), the outlook is positive for Tonga's economy, with an estimated average growth rate of around 2.5 percent. This growth is expected to be led by the reconstruction activities and the development of Agriculture and Fisheries local production.

**Table 13: GDP sectors**

Real GDP growth (%)	Actual (Statistics Department)						MOF Projection				
	2015/16	2016/17	2017/18	2018/19	2019/20r	2020/21	2021/22f	2022/23f	2023/24f	2024/25f	2025/26f
Agriculture, Forestry, Fisheries	-1.2	-2.5	0.4	3.6	3.2	0.1	-0.9	1.6	2.1	2.7	3.1
Construction	22.8	18.0	-32.4	16.3	-13.9	16.6	-10.7	-3.7	2.9	4.6	7.0
Secondary (excl. construction)	6.3	3.8	0.4	-2.6	4.1	-7.2	0.0	1.1	0.6	0.9	1.0
Service sector	5.5	1.8	3.3	0.8	-0.3	-7.6	-3.3	4.1	3.7	3.8	3.9
wholesale and retail trade	14.8	2.5	6.3	0.4	2.8	-13.1	-9.8	6.0	7.2	7.8	7.8
accommodation/food services (Tourism industry)	16.6	8.6	7.5	-3.3	-27.4	-68.1	-93.5	1504.1	41.9	20.3	6.3
finance and insurance service activities	8.2	-4.3	4.5	0.1	5.0	-5.0	-2.7	1.7	2.0	2.0	2.1
public administration and defense	0.6	-1.5	2.8	4.0	1.8	1.9	0.5	1.0	1.2	1.3	2.0
other	1.5	2.6	0.7	0.4	-0.3	-4.0	1.8	2.0	2.0	2.2	2.5
<b>Overall GDP</b>	<b>6.6</b>	<b>3.3</b>	<b>0.3</b>	<b>0.7</b>	<b>0.5</b>	<b>-2.7</b>	<b>-0.4</b>	<b>2.8</b>	<b>2.6</b>	<b>2.4</b>	<b>2.4</b>

f: forecast

- Source: Tonga Statistics Department, MOF
- In terms of **economic management**, the government has implemented relevant measures to restore and promote economic growth and stability. These measures include:
  - **Improving infrastructure:** The government will continue investing in the development of infrastructure such as roads, airports, and ports to improve transportation to facilitate economic growth, following the HTHH eruption crises experienced over the past financial year. These include the completion of the Government reconstruction housing program and implementation of large-scale infrastructure development projects such as Queen Salote Ports, Fanga'uta bridge, Age Care Services centers and so forth.
  - **Encouraging foreign investment:** The government has implemented policies with the enabling environment to attract foreign direct investment, including tax incentives and streamlined regulations and the process.
  - **Diversifying the economy:** The government has sought to diversify the economy by promoting sectors such as fisheries and manufacturing in addition to agriculture and tourism. The government has also allocated a budget allocation (\$8m in FY 2024) to support local investment through Public-Private Partnership to restore economic growth.
  - **Strengthening financial institutions:** The National Reserve Bank of Tonga is working with the Commercial Banks to strengthen Tonga's financial institutions to improve access to credit and financial services. This should positively impact growth in the medium run. On

the other hand, NRBT is also exploring the option of mopping excess liquidity in the financial system to maintain the price stability.

- *Managing government finances*: The government has implemented fiscal measures to manage its finances more effectively, including the strengthening of its domestic revenue collections and projection for the medium term and an expect review of tax exemptions, commencing in FY 2024. On the expenditure side, the Government will continue to be prudence by focusing on the PFM three (3) objectives: (i). *Aggregate fiscal discipline*; (ii). *Allocative efficiency* and (iii). *Operational efficiency*.
- *External sector*: Tonga's external sector's enduring current account shortfall indicates that the nation is still spending more money on foreign goods and services, as well as investments, than it is earning from exports. Although increased remittances and additional foreign aid to support recovery efforts may not entirely eliminate the deficit, they have the potential to help mitigate its effects and provide a boost to the economy. However, there is a need to focus on improving exports and promoting import substitution as a way forward. This could help reduce Tonga's reliance on foreign goods and services, reducing the trade deficit and improving the country's balance of payments. Such measures could contribute to long-term economic growth and stability.
- *Monetary Policy*: The National Reserve Bank of Tonga, in keeping with its statutory objectives of maintaining internal and external monetary stability is required to: promote financial stability and promote a sound and efficient financial system while supporting the policies of the Government regarding macroeconomic stability and economic growth.
  - The NRBT is currently implementing policies to manage high levels of domestic liquidity, partly because of high levels of remittances and grant aid receipts from the Development Partners. At the same time such policies must be aligned with the overall macroeconomic policy objectives determined by the Government.
  - Accordingly, the NRBT shall align its policies to support the Government's fiscal policies objectives of maintaining an accommodative fiscal framework to entrench both economic recovery and to address the debt repayment. The Government, in partnership with development partners and the NRBT, will prioritize supporting economic growth through capital investment and support the Government strengthen the financial sector to reduce the risk of debt distress, while prioritizing financing plans to support economic growth. The prioritization of expenditure is essential, in order to maintain key areas such as education, health and infrastructures. As noted earlier, in the short term, the Government has continued to implement expansionary fiscal policy, with a targeted spending on recovery reconstruction and social protection. In the medium term, macroeconomic reforms and increased investment will be implemented to help the recovery effort and revive growth in the economy. These policies require the alignment of monetary policy settings to ensure their successful achievement.
  - For Tonga, the joint implementation of fiscal and monetary policies is necessary to achieve the government's annual budget objectives in the immediate and the medium term. The effective combination of fiscal and monetary policies is the key to achieving the goals outlined in TSDF II and the Government's GPA.

## 5.2 Medium Term Fiscal Strategy

Over the medium term, the aim is to maintain macroeconomic stability through monitoring of the fiscal program. The fiscal policy will remain accommodative to entrench both economic recovery and to address the debt repayment. The Government in partnership with development partners, will continue to prioritize supporting the economic growth through capital investment. The Government

will strengthen finances to reduce the risk of debt distress, while prioritizing financing plans to support economic growth. The prioritization of expenditure is the key fiscal measures along with maintaining key areas such as education, health and infrastructures. This will lead to a fiscal surplus of \$25.3m for the FY 2024 with external debt repayment of \$47.3m. The work on strengthening the revenue collection, including the review of tax exemptions will continue to help Government's meeting its objectives of reviving economic growth and meeting debt repayment commitment.

The three-year medium-term budget for FY 2024 – FY 2026 is designed to support the GPA2022 – 2025, consistent with the TSDF II, and will focus delivery on the following:

- (i) Strengthen the Government's resilience to natural disasters and address economic crises focusing on the quality of responses and smooth recovery;
- (ii) Facilitating broad-based sustainable growth to achieve an average of 3.0 percent growth by FY 2023 and at least 3.0 percent average growth from FY 2024 onwards by increasing finance of PPP investments, driving and promoting trade opportunities for agriculture, fisheries, tourism, and manufacturing;
- (iii) Rationalizing of expenditure and targeted spending on priority areas such as economic recovery, promoting quality services under education, health, combat illicit drugs and infrastructure development over the medium term;
- (iv) Promoting skilled training and capacity building for the youth population nationally and overseas including sports opportunities targeting to address unemployment issues.
- (v) Develop and implement effective government policy responses as a catalyst for strengthening partnerships with the private sector, churches, community, and foreign investors; and
- (vi) Provision of affordable and quality transport infrastructures, public utilities, and social protection to facilitate stronger economic growth, and eradicate absolute poverty in Tonga.

This section will outline the Government's fiscal policies and measures for the Budget FY 2024 – FY 2026:

### Revenue Measures

Government is committed to maintain fiscal sustainability through domestic revenue<sup>[2]</sup> collection through:

1. Continuous Implementation of revenue reform (establish of the electronic sales register system to reduce fraudulent activities), E-tax services to modernise administration, ASYCUDA World System and Nutrients Profile model to classify foods to health profile and applicable health excise taxes;
2. Review existing tax exemptions including fuel exemption, sector exemptions to agriculture, fisheries, tourism and private to ensure it meets the expected objectives, intending to phase out tax exemptions over the medium term (refer for further details in Annex I);
3. Review the government fees and charges, particularly those had not been reviewed in the past five (5) years and insurance options; and
4. Improvement in Revenue Services Administration through Electronic Sales Register System.

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<sup>2</sup> Forecast based on detail analysis of Taxes by MORC and MOF

## Expenditure Measures

1. Reduce the public sector wage bill towards the 53 percent of domestic revenue fiscal anchor, through rationalizing the structure of the public service, reduction of vacancies and recruitment of only critical posts;
2. Better alignment between policy priorities and budget allocations through strengthening the one-tool approach, decentralization of services within the Government;
3. Rationalize government spending, focusing on quality and value for money;
4. Review of PFM Act and implementation of PFM Roadmap; and
5. Implementation of Fraud Policy.

**Table 14: Key Fiscal Indicators<sup>3</sup>**

Fiscal Indicators (\$millions)	2021/22 Actual	Budget Estimate 2022/23	Estimate Outturn 2022/23	Budget Estimate 2023/24	2024/25 Estimate	2025/26 Estimate
Overall Revenue	562.0	695.4	612.6	741.9	699.6	714.0
Tax Revenue	257.9	253.3	270.7	283.0	297.3	306.7
Total Domestic Revenue	282.2	286.3	299.4	326.5	333.2	344.4
Total Expense	505.1	557.1	514.5	514.8	444.9	435.3
Compensation of Employees	189.3	169.3	162.8	173.4	173.3	171.1
Total Expenditures	572.1	717.1	607.3	714.8	676.4	677.7
Operating Balance	56.8	138.3	98.0	227.1	254.7	278.7
Fiscal Balance Surplus(+)/Deficits(-)	-10.3	-22.7	5.1	25.3	21.7	34.7
Total External Debt	434.5	429.7	428.1	408.4	361.5	362.5
		% of GDP or otherwise specified				
Overall Revenue to GDP (%)	47.3	51.9	45.7	50.1	42.8	41.1
Tax Revenue to GDP (%)	21.7	18.9	20.2	19.1	18.2	17.6
Total Domestic Revenue to GDP (%)	23.7	21.4	22.3	22.1	20.4	19.8
Total Expense to GDP (%)	42.5	41.6	38.4	34.8	27.2	25.0
Compensation of Employees (% of Domestic Revenue)	67.1	59.1	54.4	53.1	52.0	49.7
Compensation of Employees (% of Operating Expenses <45%)	37.5	30.4	31.6	33.7	39.0	39.3
Total Expenditures to GDP (%)	48.1	53.5	45.3	48.3	41.4	39.0
Operating Balance to GDP (%)	15.9	12.6	12.1	11.7	10.6	9.8
Fiscal Bal Surp(+)/Def(-) to GDP (%)	-0.9	-1.7	0.4	1.7	1.3	2.0
Total External Debt to GDP (%)	36.6	32.1	31.9	27.6	22.1	20.9

Source: Ministry of Finance (MOF)

**Fiscal Surplus:** The Government is implementing prudential measures by prioritizing the spending to bring the fiscal account to a surplus of \$25.3m for FY 2024 and expected to maintain the surplus at 2 percent of GDP over the medium term. This is through restructuring of the government's fiscal response including the strengthening of the domestic revenue collection by the implementation of the proposed revenue measures. The relevant measures include the review of tax exemption, starting in FY 2024.

The Government is committed to fiscal consolidation and targeted spending on priority areas including the Export-Import Bank of China loan repayment which is due in FY 2024. Given the current recovery situation, coupled with the challenges in the fiscal situation, the government will continue to seek additional budget support in the medium term. The foreign reserves are projected to remain favourable at over eight (8) months of imports cover and public debt contains below the threshold of 50 percent of GDP, and above the IMF threshold of 40 percent of GDP. Tonga is still categorized under high debt distress category.

<sup>3</sup> Fiscal Indicators are based on the Government Fiscal Statistics (GFS)

- ✓ The FY 2023 estimated a fiscal surplus of \$5.1m, a vast improvement from an estimated fiscal deficit of \$22.7m. This is because of the control and management of spending.
- ✓ The estimated fiscal surplus over the medium term is attributed to the fiscal consolidation in terms of improving revenue and controlling spending. This will help to maintain fiscal sustainability.
- ✓ The Government has built credibility for prudent fiscal management through continuing effort to improve revenue collection, control spending, and avoid any further external borrowing.
- *Domestic revenue: Decline in the ratio of the domestic revenue to GDP continues to become a challenge.*
  - ✓ Domestic revenues (as a share of GDP) are projected to remain below the 23 percent benchmark at 22.1 percent of GDP in FY 2024. This also reflects a slight increase by 2 percentage point from the estimated outturn for FY 2023.
  - ✓ The tax revenue is estimated to increase by 4.6 percent for FY 2024 reflecting the economic recovery from the impact of COVID-19 and past natural disaster, the HTHH volcanic eruption.
- *Grants:* Total grants are estimated to increase in FY 2024 by 32.6 percent from \$313.2m estimated to receive in FY 2023 with bulk of the increase is from capital grant aiming at capital projects. The large increase is because of the start of Queen Salote Wharf upgrade, Tonga Climate Resilience Transport Project and the Tonga High School Sport Complex as the main projects with each estimated to cost above \$30m.
- *Other revenue:* Sales of goods and services is expecting to increase by 51.4 percent in FY 2024 from the estimated outturn of \$28.7m in FY 2023 because of improvement in collection of administrative fees such as Passports and visa fees.
- *Public debt:* The government is expecting a rapid increase on its debt service in FY 2024 and the next 4 years due to the commencement of the principal repayment of the Nuku'alofa CBD Reconstruction project loan to China EXIM Bank. Total debt service due to China EXIM Bank in FY 2024 is estimated at \$45m, which accounts for 68 percent of Tonga's total debt service for FY 2024. The Medium-Term Debt Strategy (MTDS) 2021 – 2025 outlines the debt policy to remain with no new non-concessional borrowing, except borrowing from highly concessional facilities and domestic market development. The government is also exploring ways to manage risks such as exchange rate risk of the current external debt portfolio to be at the lowest possible cost over the medium to long-run, consistent with a prudent risk.

### 5.3 Inflation

Inflation Rate measures the movement in prices of goods in Tonga by using Consumer Price Index. In Tonga, movement of prices heavily depends on the movement of fuel prices, as has been witnessed in the past years and most of the times dominated by movement in food prices because of seasonal impacts of climate change. In terms of fuel, Tonga is importing all its fuel from overseas. The most recent movement of the inflation recorded is February 2023 where inflation was 8.7 percent which reflected a decrease from 9.7 percent recorded in January 2023. The local component of Consumer Price Index increased by 10.4 percent and the imported inflation was at 7.4 percent at the end of the previous fiscal year and was mainly driven by COVID-19 restrictions and developments in the energy and staple food markets because of the Ukraine war.

Domestic prices surged by 10.4 percent and averaged at 7.4 percent, with local food items, electricity, takeaway food, and kava being the major contributors to the rise. There are, however, mix movements in the prices of food items are recorded in January 2023, but bulk of food prices went up by 3.2 percent. This movement of prices in these food items seems to be seasonality as fewer events happened in January compared to December festivities and lack of vegetables, especially tomatoes, in every January continues to be a problem and should be addressed.

Reserve Bank expects inflation to moderate and ease below the 5 percent reference rate in 2023, but risks remain tilted to the downside because of factors such as China's reopening, natural disasters and shortages in the semi-skilled labour market. Natural disasters such as cyclones remain a critical concern for the economy.

#### 5.4 Poverty and Vulnerability

Poverty in Tonga is expected to increase because of the dynamics of the crisis. There are two measures used to assess poverty in Tonga - extreme poverty and multidimensional poverty. While only 3.1 percent<sup>4</sup> of the population is classified as experiencing extreme poverty, approximately 27 percent of the total population is considered poor, with socially or materially deprived incomes. The child monthly income poverty line is set at TOP\$944, while the adult's monthly income is set at TOP\$974. In Tonga, a higher percentage of children than adults live in poverty (36 percent vs 22 percent)<sup>5</sup>. To combat child poverty, the government has allocated a \$1.2m budget to provide meals for primary school children starting in 2024. This initiative aims to alleviate child poverty in the country while at the same time promoting healthy eating habits for children at a young age.

According to the Tonga HIES 2021, most households' income (62 percent) comes from employment, with remittances contributing 31 percent, and the rest from imputed rent and transfer income. Although around 88 percent of households in Tonga receive their income from primary activities, it is notable that wealthier households spend more in cash, while poorer households rely more on home production. It is essential to continue measuring the extent and nature of poverty in Tonga to ensure that poverty policies are effectively and efficiently implemented.

The government of Tonga has implemented a social protection scheme aimed at supporting poor and vulnerable groups during times of crisis and shocks. The disruptions caused by the HTHH and COVID-19 have resulted in an increase in households' deprivation in Tonga, particularly among the elderly, disabled, and financially disadvantaged households who are more vulnerable to risks and take longer to recover. Based on data from the elderly's database, a majority of the elderly population in Tonga are females (60 percent) aged between 70-79 years. In addition to the ongoing social protection schemes, the government, along with support from development partners, has extended its assistance to poorer and vulnerable groups through the provision of water tanks, sanitation facilities, and subsidies for relief support.

The government is committed to maintaining gender equality in its plans and policy decisions, ensuring that both men and women benefit equally. This includes efforts to increase the number of women in leadership positions and improve access to education. The government is actively working to eliminate discrimination against women and protect them from abusive and violent situations, recognizing the significant impact this has on the lives of Tongan women.

<sup>4</sup> HIES 2016, Tonga Statistics Department. The Statistics Dept. has estimated that this number to remain more or less the same in the HIES 2021.

<sup>5</sup> Statistic Department Tonga. (2018, November 6). "Assessing progress towards the eradication of poverty in the Kingdom of Tonga"



The Government, in collaboration with the Ministry of Internal Affairs and with assistance from the World Bank, is working towards creating a more inclusive and gender-responsive social protection system by developing a National Policy for Social Protection in Tonga.

### 5.5 Reform of Government

- Structural reforms in the public sector are ongoing including the planned review of organizational structure of the government ministries, departments and agencies (MDA), as the core building block of the public services making it to become more efficient and effectiveness in service delivery. The ongoing Government reforms include institutional strengthening and capacity building within the public service.
- Government is committed to adhere towards the principles of promoting transparency and accountability of government operations. This will be through implementing the overall government reform program under the three pillars:
  - To Strengthen Public Finances (PFM Roadmap).
  - To Enhance Resilience to Climate Change, Natural Disaster and Health-Related Risks; and
  - To Support Economic Recovery and Improved Labour Market Outcomes.
- Given the current economic and the financial situation, the implementations of the government reforms will need to be expedite, including an organizational review of the MDAs, decentralize treasury functions and so forth. Government will see to outsource services that can be carried out by the private sector.

### 5.6 Risks and Mitigation

There are several key risks to the Tongan economy that could impact the growth projections and stability. These include:

- *Increase costs due to natural disasters and climate change:* Tonga is highly vulnerable to natural disasters posing a high degree of environmental, social and economic risks, as well as financial pressures following a disaster events.

The Government continues to **mitigate this risk by:**

- enhancing economic and fiscal resilience through strengthening domestic revenue collection;
- seeking additional financing and other substantial development partner assistance for medium-term recovery;
- strengthening domestic resource mobilization with controlled and focused spending on the priority areas;
- comply closely to the policy to consider only the highly concessional financing and only borrow as the last resort in terms of financing option; and
- Continue with current disaster insurance facility with Pacific Catastrophic Risk Insurance Company (PCRIC); the contingency finance facility with ADB; and the Catastrophe Deferred Drawdown Option (Cat DDO) funded by the World Bank.
- *High vulnerability to external shocks:* Due to Tonga's small size and remote location, its economy is highly reliant on the global and regional economies, making it vulnerable to external shocks. These shocks can lead to disruptions in services, economic activities, tourism, and remittances, resulting in reduced confidence among businesses and households. Examples of such shocks include the COVID-19 pandemic and increased global commodity prices

resulting from the Russian-Ukraine war, leading to higher inflation, higher than the NRBT's inflation reference target of 5 percent, in the domestic market. These negative impacts could further strain fiscal and external accounts, negatively affecting businesses and households. However, the medium-term outlook remains positive, with expected improvements in the tourism sector, aided by the supportive macroeconomic policy framework. The economy is projected to rebound, to around 2.8 percent in FY 2023 and 2.6 percent in FY 2024, with growth expected to exceed baseline projections, driven by reconstruction, fish exports, agriculture, and a gradual recovery in the tourism sector.

The Government continues to **mitigate this risk by:**

- implementing relevant measures—such as subsidies, renewable energy projects—to address impacts of inflation until it declines to the 5 percent threshold; and
- the NRBT has significant international reserves to lessen a deterioration in the balance of payments, considering that residual risk has continued to upsurge in recent months.
- **Limited diversification:** The Tonga economy is highly reliant on a few key sectors such as agriculture, fisheries and tourism, showing a narrow export-base. It is one of the government's priorities to promote import substitution in the economic sectors.

The Government continued to **mitigate the associated risks by:**

- broaden export-base and improving import substitution, maximizing trade opportunities and strengthen conducive environment for doing business; and
- promoting strong public-private partnership, investment initiatives and enhance job opportunities to restore growth.
- **Limited human capital:** The Tonga economy has a small population (100,179 people, 2021 Population Census) with limited skilled labor in certain areas for example, specialist doctors. Other contributing factors included the high staff turnover in the public service and economic and financial pressures.

The Government is **mitigating this risk by:**

- investing more in education and training programs that help build a skilled and productive workforce and creating an enabling environment that supports the retention of skilled workers within the country. The demand for and supply of skilled labor are addressed through:
  - ✓ establishment of the Tonga National University including the vocational training program it has, apprenticeships, and on-the-job-training opportunities. Improved quality of courses and to be offered consistently to build relevant skills and to ensure its availability as to make them employable in Tonga; and
  - ✓ The WB funded SET Project assists the Government to better respond to high school drop-out rates, about 20 percent of student annually, to ensure that those who have dropped out of secondary school have alternative vocational and learning in view of labor mobility pathways.
- implementation of the Employment Act, once gazette, particularly the minimum wage rate to be adhered to and for all employers to comply.
- **Fiscal vulnerability:** Tonga has a relatively high debt-to-GDP ratio, coupled with the loan repayment commitment, commencing in FY 2024 contributes to the challenge of managing external shocks or unexpected natural and/or climate change related disastrous events. Consequently, Tonga's domestic revenue and government level of spending are compromised, reliance on budget support and the slow implementation of development projects.

The Government is **mitigating this risk by:**

- maintaining fiscal buffers;
  - Review exemptions, fees and charges policies;
  - Seeking supplemental financing options and further assistance from development partners for the medium-term recovery; and
  - Prudent spending and compliance with the Medium-Term Debt Strategy (MTDS) as to consider loan only as a last resort and with a highly concessional interest rate.
- **Risks related to institutional capacity** continue to increase substantially, given the need to accelerate recovery related activities and targets whereas some of the reform program impact could be delayed, and hoping that there won't be any further disruption—natural disasters and climate change related in the near term.

The Government is **mitigating this risk by:**

- continuity of partnership and collaboration with development partners for additional financial support to lessen the critical fiscal pressure and technical assistance for capacity building of staff; and
  - additional technical assistance to support disaster recovery planning and execution given the increase in the downside risk of delayed implementation and associated residual risks.
- **Further upward pressure on global commodity prices** because of a prolonged conflict in Ukraine and Russia or another negative global shock would exacerbate pressure on the current and fiscal accounts, decreasing the purchasing power of households.

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

Risk Categories	Rating
• Political and Governance	• Low
• Environment and Social	• Substantial
• Macroeconomic and fiscal	• Substantial
• Institutional Capacity for Implementation and Sustainability	• Substantial
• Other	• Substantial
<b>Overall</b>	• <b>Substantial</b>

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

**Table 15: Illustrative Budget Risk Matrix**

Likelihood	Budget Risk	Possible Condition	Impact on the budget	Possible costs TOP (\$)
High	Increased demand for services	Increase in the number of elderly persons without family support	Higher costs associated with health demand	5,000,000
High	Increased demand for services	Illicit drug use continues to grow	Higher costs associated with Police action	5,000,000

High	Increased costs	Increase in extreme weather events (multi-hazards assessment) including TC due to climate change	Higher costs due to recovery and reconstruction	10,500,000
High	Increased demand for services	Increase in degradation of terrestrial and marine ecosystems leading to internal migration and lower domestic food supplies	Higher costs associated with health and education demand and increased poverty alleviation measures	2,500,000
High	Increased demand for services	Water sources become affected by climate change	Higher costs associated with sourcing alternate sources of drinkable water	3,000,000
High	Inflation	The reopening of China market; and the War between Russia and Ukraine raises the costs of grain and petroleum	Higher costs associated with costs of inputs for MDAs services and possible price support for low-income persons	4,500,000
High	Lower revenues	Reduction in the number of working age persons	RSE, including nurses, and migration raise concerns on brain drain numerous of productive workers undermining the availability of staff in the public and private sectors causing lower productivity and less revenue	10,100,000
Medium	Increased demand for services	Major incident or large-scale emergency	Something similar to HTHH event	10,000,000
Medium	Loss of income	Assumptions regarding revenue collection are incorrect	Remittances decline leading to softer than expected demand and causing less than expected revenue	12,000,000

Source: Ministry of Finance (MOF)

## 6. GOVERNMENT BUDGET: BY FUNDING ALLOCATION

### 6.1 Overview

For the period to 2026, Budget FY 2024 will support the process of recovery from the past two major disaster events which caused the devastation to the economy. The theme: *“Partnership for greater Resilience and Sustainability to restore Inclusive Growth”* will continue to execute a balanced approach to reducing deficits. The Budget FY 2024 projects a budget deficit of \$27.2m (without financing options), because of the commencement of the Export-Import Bank of China loan repayment. A supplementary emphasis will be on the continuation of HTHH reconstruction and restoration operations of all essential parts of the economy, including social services and aiding of the disadvantaged populations. In addition to providing continuity of services, the additional elements of this budget allocation are:

- An ongoing monitoring of the macroeconomic framework and medium-term fiscal target in planning for the risks identified in *Table 15* to manage Tonga’s exposed hazards risks, and to protect the Government, businesses, families and the vulnerable when future disasters strike. Disasters will continue to affect Tonga’s development efforts if we do not plan for it now;
- **Ongoing implementation of the HTHH reconstruction** in *Table 2*, and expedite the major infrastructure projects with development partners such as Nuku’alofa International Port

Upgrade, Fanga’uta Lagoon Crossing Bridge, Nuku’alofa Urban Development, upgrading and expanding public transport infrastructures to provide for more adequate and efficient transport services to expedite national resilience and preparedness for unforeseen disasters;

- Engaging the National Reserve Bank of Tonga (NRBT) to explore and confirm measures to address inflation. This includes NRBT’s proposal to mopping excess liquidity in the financial system to reduce inflation. The government will **continue the Discounted Lifeline Electricity tariff scheme in the medium term**, aiming to continuously provide subsidy towards the low-income households;
- Increasing focus on the **efficiency, quality and affordability of the services of government**, through the planned implementation of the whole of public service **organizational review**, e-government projects, and the **PFM Action Plan**;
- An effort to restore growth in key economic sectors through the **continuation of public-private partnerships (PPP) investment**, support towards new initiatives from the agriculture, fisheries, and tourism sectors (both formal and informal sectors). The **Government Development Loan (GDL) facility** administered by Tonga Development Bank (TDB) will be topped up and exploring guarantee options by the government considering the current issue that businesses are already over-committed;
- **Continuing support to enhance trade opportunities for** certain agricultural and fisheries produces where Tonga has comparative advantages such as kava, vanilla, root crops in agriculture, snapper in fisheries, and tourism, including import substitution and diversification. Government will review the existing incentives, particularly to key economic sectors, to ensure that it is effective and meet the planned objectives. Streamlining tax incentives as part of an exit strategy considering the revenue loss shall also be a priority;
- An ongoing attention towards **supporting the vulnerable groups**, namely the elderly, disadvantage group—disabilities, returnees (criminal deportees), and households with affordability issues (financial hardship). This will be through ongoing monthly stipends, SET project, support towards the existing service providers such as NGOs, and affordable housing options;
- Continuous **budgetary restructuring initiatives through** aligning to the nine GPA, fiscal consolidation in purpose to target spending and improve the quality of the government services. Additionally, reducing external debt by initiating loan agreements during the 2024 fiscal year, reducing government vacancies, adhering to the present overtime policy, managing recruitment, with the goal of controlling the size of the public service and eventually the wage bill. An increase focus on employment creation through the ongoing labour scheme mobility to Australia and New Zealand, at the same time managing the side implications;
- Over the medium-term, a **proposed 2 percent salary adjustment (COLA)** is considered, taking into account the inflationary pressures.

### Budget Alignment with GPA

In aligning to the TSDf II, the three thematic areas, and the nine GPA, the Budget FY 2024 will:

- Have a total budget of \$784.2m for FY 2024 with a total cash budget of \$515.8m;
- Strengthen fiscal discipline towards achieving sustainable cash flow over the medium-term, through rationalized expenditures in the recurrent budget and removing one-off items that were mainly related to COVID-19 and HTHH; lowering recurrent budget spending from the current financial year by \$17.5m to \$419.5m in FY 2024. Additional

budget support received from DFAT worth \$24.0m recorded under the development budget will provide significant relief to the recurrent budget in terms of funding important projects related to improvements in public infrastructure, education and social services;

- Increase in the development budget by \$37.0m to \$364.7m in FY 2024, mainly driven by the ongoing HTHH reconstruction and expect implementations of major infrastructure development projects such as Ports, THS Sports complex, and Safer School project;
- Create opportunities by continuous domestic investment and the planned top-up of the current GDL facility to support the private sector.

Section 4 above provides budgetary information for each of the nine GPA. Bringing them together into the three thematic areas of the Budget Strategy results in the thematic cross cutting allocation of budget shown in *Table 16*. FY 2023 is used as the baseline and the propose budget for FY 2024 is provided.

**Table 16: Budget Allocation by GPA Thematic Area (\$m)**

Thematic Areas	Original Estimates 2022/23			Budget Estimates 2023/24		
	Recurrent	Development	Total	Recurrent	Development	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Thematic Area 1: National Resilience	54.8	97.5	152.3	53.7	112.4	166.1
Thematic Area 2: Quality of Services and Affordability	308.1	128.0	436.1	297.1	127.7	424.8
Thematic Area 3: Progressive Economic Growth	74.1	102.2	176.3	68.7	124.6	193.3
<b>GRAND TOTAL</b>	<b>437.0</b>	<b>327.7</b>	<b>764.7</b>	<b>419.5</b>	<b>364.7</b>	<b>784.2</b>

Source: Ministry of Finance (MOF)

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

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

The budget provides significant investments to build national resilience, with an increase by \$13.8m in FY 2024. These investments include, among others:

- Making progress in addressing climate change and disaster resilience through several development-funded projects to help the Government meet its climate objectives;
- Continuous implementation of the HTHH Reconstruction Program with the intend focus to complete *phase 1*: housing reconstruction, and implement *phase 2*: transport infrastructure (roads, wharves), Nuku'alofa foreshore, and the renovation of the six (6) primary schools;
- Ongoing priority to complete the Queen Salote Wharf Upgrade, currently implementing, and the Fanga'uta Lagoon crossing bridge under preparation with the Asian Development Bank due to start in 2025, and the Nuku'alofa Road network purposely to support traffic congestion and improve evacuation routes;
- A total budget resources of \$10.0m over the medium term, of which \$2.0m is allocated for FY 2024, to support social measures to alleviate poverty (water tanks, sanitation, and secured development grants) to support vulnerable groups;
- Maintain support towards financial resilience, renew two contingent disaster financing plans to be triggered by an eligible disaster event, adding to the PCRAFI, Contingent Emergency Response Component (CERC). Together, these will support the National Emergency Fund and designated COVID-19 and disaster resources. The probable receipts

following an eligible disaster event are estimated to be up to \$70.0m but are not included in the budget;

- Maintain support towards the national response to combat illicit drugs with an allocated budget of \$5.0m in FY 2024;
- Continue focus attention on targeted assistance towards targeted households to reduce poverty as mentioned above in the Overview of this section;
- A total allocation of \$5.0m - \$8.0m with a start-up budget of \$1.0m in the Budget FY 2024 to support the ongoing initiatives to reduce household indebtedness and hardship through support towards increasing access to basic services such as water tanks, sanitation, resilience and affordable housing options;
- Maintain support for low-cost credit for women at \$2.9m working in manufacturing and handicrafts;
- An estimated allocation of \$6.2m target in FY 2024 Budget sourced from the foreign exchange levy will be provided to support national sport events and participation in international competitions in order to enhance well-being.

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

This priority represents most of the government expenditure with 54.2 percent of the total budget in FY 2024, a slight decrease by \$11.4m from the current baseline. The decrease is basically due to the reduction in the special projects' allocation such as the HTHH and reform as they are covered under the development budget; and the rationalization of operational budget allocation for MDAs. Despite the slight decrease in the overall allocation (thematic area 2), continuous focus on the improvement and affordability of government services provided to the public.

- Prime Minister's Office will continue to lead public sector reform including organizational review, implementation of PFM Action Plan, and e-government project, aiming to improve government effectiveness and efficiency of service delivery. Budget resources of \$2.5m are allocated to support these ongoing reform activities;
- An allocation of \$16.0m under development budget is earmarking to support improvements in healthcare service through the reconstruction of the Vava'u hospital: an estimated allocation of \$0.2m to be utilized in FY 2024;
- Continuing support with an allocation of \$4.2m towards improving quality education, focusing upon increasing the quality of early childhood and basic education, the quality of teachers, and higher education through providing operational support to the Tonga National University;
- A proposed allocation of \$2.0m will be considered over the medium term to support a 2 percent cost of living adjustment for the public service;
- Continuing the allocation to the Ministry of Infrastructure of \$10.0m budget to deliver resilience maintenance and to upgrade key transport infrastructure;
- Ongoing budget allocation of \$4.0m to provide ongoing electricity lifeline subsidy;
- Allocate a budget of \$1.2m in FY 2024, commencing at primary school, to address child poverty related issues and to promote healthy eating habits at a young age.

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

The prime focus of this theme and the Budget FY 2024 is on economic recovery with an allocated budget resources of \$193.3m from the baseline toward the related economic recovery activities in key sectors, promotion of trade opportunities, building on our comparative advantage in agriculture and fisheries sectors, supporting domestic investment to promote import substitution.

Through the budget, the government will provide:

- Maintain the allocation to support domestic investments and exports;
- Improve government resources to promote private sector development;
- \$8.0m allocation for PPP investments, include options of developing a loan guarantee scheme to manage and address loan distress and the planned top-up of the Government Development Loans to support recovery of the agriculture, tourism, fisheries, and manufacturing sectors, building on the remaining balance of \$4.0m at TDB;
- Recovery supports towards the agriculture, fishery, tourism, and manufacturing including initiatives/activities to promote:
  - Import substitution;
  - Increase export production (Tonga Circular Economy Project);
  - Food security; and
  - Rebuild/upgrade of tourism infrastructure.
- Targeted support through ongoing tax exemption to assist the key economic sectors.

## 6.2 Recurrent Budget

### 6.2.1 Recurrent Budget projections for the medium term (FY 2024 – FY 2026)

Table 17: Recurrent Budget Projections for FY 2024 – FY 2026 (\$m)

	Actuals 2021/22	Estimates 2022/23	Revised Est. 2022/23	Estimates 2023/24	Estimates 2024/25	Estimates 2025/26
<b>Domestic Revenues</b>	<b>298.1</b>	<b>325.3</b>	<b>335.3</b>	<b>341.8</b>	<b>353.6</b>	<b>364.8</b>
<b>Tax</b>	<b>250.8</b>	<b>245.6</b>	<b>263.6</b>	<b>275.4</b>	<b>289.7</b>	<b>298.8</b>
Income Tax	55.6	48.2	51.1	55.4	56.5	58.6
Trade Taxes	20.4	23.3	23.4	24.3	26.3	27.9
Tax on Goods & Services	109.1	106.6	126.0	121.4	131.0	134.3
Excise Tax	65.7	67.6	63.0	74.3	75.9	78.0
<b>Non-Tax</b>	<b>47.3</b>	<b>79.7</b>	<b>71.7</b>	<b>66.4</b>	<b>63.9</b>	<b>66.0</b>
Fees & Licenses	20.8	28.2	25.8	28.9	31.4	32.5
Entrepreneurial & Property	9.5	11.6	9.1	21.7	11.7	12.7
Miscellaneous	0.8	1.2	0.5	0.4	0.5	0.6
Capital & Transfers	16.2	38.6	36.3	15.4	20.3	20.3
<b>Debt Expenditures</b>	<b>34.6</b>	<b>43.6</b>	<b>42.2</b>	<b>67.1</b>	<b>69.7</b>	<b>72.8</b>
<b>Balance (Domestic Rev-Debt)</b>	<b>263.5</b>	<b>281.7</b>	<b>293.1</b>	<b>274.7</b>	<b>283.9</b>	<b>292.0</b>
<b>Non-debt Expenditures</b>	<b>325.2</b>	<b>393.4</b>	<b>350.7</b>	<b>352.4</b>	<b>351.2</b>	<b>345.9</b>
Wage Bill	166.9	172.9	162.9	177.4	177.4	175.2
Operations	144.2	204.1	173.9	162.9	162.3	159.0
Assets	14.1	16.5	13.9	12.2	11.5	11.7
<b>Balance + Non-debt Exp.</b>	<b>-61.7</b>	<b>-111.7</b>	<b>-57.6</b>	<b>-77.7</b>	<b>-67.3</b>	<b>-53.9</b>
<b>Budget Support</b>	<b>52.1</b>	<b>81.5</b>	<b>58.2</b>	<b>50.5</b>	<b>38.5</b>	<b>38.5</b>
Normal allocations	34.1	38.5	15.2	38.5	38.5	38.5
Additional	18.0	43.0	43.0	12.0	-	-
<b>Balance (above the line)</b>	<b>-9.6</b>	<b>-30.3</b>	<b>0.6</b>	<b>-27.2</b>	<b>-28.9</b>	<b>-15.4</b>
<b>Financing Options (below the line)</b>	<b>9.6</b>	<b>30.3</b>	<b>-0.6</b>	<b>27.2</b>	<b>28.9</b>	<b>15.4</b>
Trust Fund	-	-	-	-	7.6	-
Cash reserves	9.6	30.3	-0.6	27.2	21.3	15.4
<i>of which Sinking Fund</i>	-	-	-	3.0	7.2	3.0
<b>Estimated cash reserves balance</b>			<b>95.4</b>	<b>68.2</b>	<b>39.3</b>	<b>23.9</b>

Source: Ministry of Finance (MOF)



The [Table 17](#) highlights that the Recurrent Budget FY 2024 targets to collect \$392.3m in receipts (comprised of \$341.8m in domestic revenues and \$50.5m budget support), whilst aiming to spend \$419.5m; resulting in a deficit of \$27.2m. As part of the financing options towards the cumulative budget deficits over the next medium-term, it is estimated that the level of government's cash reserves will be suffice, resulting at around \$23.9m remaining balance by the end of the FY 2026 post-financing.

A key increase in the next FY 2024 recurrent budget from the current FY is the debt repayment related to the EXIM buildings construction loan post-riots in 2006. As such, the government aims to service all debt payments using domestic revenues, resulting in a surplus of \$274.7m to finance non-debt expenditures. However, non-debt expenditures are higher by \$77.7m than the level of domestic revenues available after debt servicing in FY 2024. As such, budget support of \$50.5m from development partners (inclusive of an additional \$12.0m from the ADB) will help fund the mentioned short-fall of \$77.7m, and the remaining deficit of \$27.2m to be financed from the drawdown of government's cash reserves, new bond issuance and trust fund.

Key features of expenses in FY 2024 including:

ON-GOING:

- On-going operations such as overseas travels; and the inflationary impacts such as on fuel, electricity, rations and diets, medical drugs and supplies for instance;
- Dedicated allocation from government to support youth/ women's parliament; and
- Increase in government's on-going support towards the TNQAB by \$0.3m.

NEW:

- Salary review of the Tonga Police Force to commensurate with the growing complex and dynamic nature of policing and its public safety functions at around \$2.0m phased out over the medium-term;
- \$1.2m for a twice-a-week breakfast meal provided to all primary schools each year;
- Hosting of regional meetings to take place in Tonga next FY including the Pacific Leaders Forum, Pacific Islands Chiefs of Police and the Pacific Health Minister Meeting;
- \$60,000 for returnees (criminal deportees) and \$1.0m for affordable housing; and
- 2 percent Salary adjustment over the medium term.

The challenge for the FY 2024 budget and over the medium-term is aiming to support economic recovery and strengthen national resilience with constrained fiscal space following the impacts of COVID-19, the recent HTHH tsunami and volcanic eruption, in addition to higher commodity prices and the debt servicing.

In response, the focus of the FY 2024 budget is to strengthen fiscal discipline in terms of reviewing public spending and revenue sources to improve effectiveness and efficiency in service delivery while promoting economic recovery in partnership with development partners. In addition, to promote greater transparency in resource allocation and improving budget preparation, execution and oversight through the implementation of public financial management (PFM) reforms. Furthermore, are the following assumptions for the FY 2024 recurrent budget and the medium-term:

**Main Revenue Assumptions:**

- Tax revenues to increase over the medium term supported by the projected growth and the gradual phasing out of tax exemptions;
- The improvement estimated from the collection of non-tax revenues is due to dividend from National Reserve Bank of Tonga. In the medium term, review of government's current fees and charges will be conducted to enhance domestic revenues;
- Budget support to increase by \$12.0m in FY 2024 from ADB, before levels return to normal budget support allocations of \$38.5m per annum in the outer two years;
- New bond issuance of \$3.0m is expected in FY 2024, and \$5.0m per annum in the outer two years to help finance the budget deficits over the medium-term and most importantly, maintain and sustain financing gap.

**Main Expenditure Assumptions:**

- High debt servicing over the medium term, including \$67.1m for FY 2024, \$69.7m in FY 2025; and \$72.8m in FY 2026;
- Wage bill expenditures expected to reduce over the medium term, now at 50 percent, when excluding debt payments and 42 percent when including debt payments, through Public Service rationalization and MDAs organizational review;
- New Funding for the Office of the Anti-Corruption Commission;
- Further expenditure rationalization to remove one offs and to reduce allocations based on outturns as well as phasing out direct support whilst incorporating the impact of border opening and total cost of inputs;
- Use of Budget Support funds in the development budget to fund specific expenditure relating to donor's focus area.

**6.2.2 Recurrent Expenditure by Category****Table 18: Total Recurrent Payments Budget by Category (\$m)**

	Recurrent Expenditure by Category	Actuals 2021/22	Original Estimates 2022/23	Revised Estimates 2022/23	Estimates 2023/24	Estimates 2024/25	Estimates 2025/26
10	Established Staff	152.5	155.8	146.9	157.9	158.0	155.8
11	Unestablished Staff	10.6	13.2	11.7	15.5	15.5	15.5
12	Travel & Communications	9.8	11.3	18.0	13.6	13.2	13.2
13	Maintenance & Operations	21.9	20.3	20.2	19.7	19.7	19.7
14	Purchase of Goods & Services	61.7	62.7	62.6	59.6	59.0	59.7
15	Grants & Transfers	48.0	89.2	62.4	54.5	54.9	52.3
16	Development Duties	2.7	4.6	4.2	4.8	4.8	4.8
17	Debt	34.6	43.6	42.2	67.1	69.7	72.8
18	Contingency Fund	0.0	5.0	0.0	5.0	5.0	5.0
19	Pension & Gratuities	3.9	3.9	4.3	3.9	3.9	3.9
20	Assets	14.1	16.5	13.9	12.2	11.5	11.7
21	Equity Payments	0.0	1.0	1.0	0.2	0.2	0.2
22	Private Sector Development	0.0	10.0	5.4	5.4	5.4	4.0
	<b>Grand Total</b>	<b>359.8</b>	<b>437.0</b>	<b>392.8</b>	<b>419.5</b>	<b>420.9</b>	<b>418.7</b>

Source: Ministry of Finance (MOF)

The wage bill-related expenditure categories for FY 2024 (cat 10, 11 and 19) established staff, unestablished staff, pension & gratuities) hold the largest allocation of expenditure at 42 percent, from the 41 percent share of the revised estimates of the current FY 2023. The increase is largely due \$2.0m for PMS award, inclusion of the Constituency Office's staff \$1.0m, Police's salary review implementation \$0.7m and vacancies \$6.0m. Over the medium-term the rationalization of government spending should see this remain constant if not decrease.

Total operations related expenditure categories (cat 12 – 16, 18, 21 and 22) has the second largest share of payments at 39 percent for FY 2024, a decline from 44 percent share of the revised estimates for current FY 2023. This is largely due to exclusion of one-off estimates, main one is the \$10.0m for HTHH. Debt (cat 17) saw the largest increase from 11 percent share in the revised estimates of current FY 2023 to 16 percent share in FY 2024 reflecting the beginning of the EXIM loan repayments and expected to remain at this high level on the medium term and beyond. Asset (cat 20) remain largely constant at 3 percent over the medium term, a decline from 4 percent on the revised estimates FY 2023.

### 6.2.3 Recurrent Revenue by Category

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

	Recurrent Revenues by Category	Actuals 2021/22	Original Estimates 2022/23	Revised Estimates 2022/23	Estimates 2023/24	Estimates 2024/25	Estimates 2025/26
00	Income Tax	55.6	48.2	51.1	55.4	56.5	58.6
01	Trade Taxes	20.4	23.3	23.4	24.3	26.3	27.9
02	Tax on Goods & Services	109.1	106.6	126.0	121.4	131.0	134.3
03	Excise Tax	65.7	67.6	63.0	74.3	75.9	78.0
04	Fees & Licenses	20.8	28.2	25.8	28.9	31.4	32.5
05	Entrepreneurial & Property	9.5	11.6	9.1	21.7	11.7	12.7
06	Miscellaneous	0.8	1.2	0.5	0.4	0.5	0.6
07	Capital & Transfers	16.2	38.6	36.3	15.4	20.3	20.3
08	Budget Support	52.1	81.5	58.2	50.5	38.5	38.5
	<b>Grand Total</b>	<b>350.2</b>	<b>406.8</b>	<b>393.4</b>	<b>392.3</b>	<b>392.0</b>	<b>403.3</b>

Source: Ministry of Finance (MOF)

The collection from tax revenues is expected to increase by 4.5 percent or \$11.8m in FY 2024 from the revised estimates for FY 2023, in line with projected economic growth and ongoing revenue administration reforms such as the progress of the Point of Sale (POS) operation that allows access of the inland revenue office to all taxable transactions and manage fraudulent tax activities and undeclared revenue. A review of tax exemptions is in progress due to overall tax revenue loss of an average<sup>6</sup> of \$58.0m per annum including exemptions on fuel, development projects and sectors.

Non-tax revenues will remain stable over the medium term except for \$13.0m dividend from the NRBT in FY 2024. Ongoing review of government fees and charges may potentially grow the receipts.

### 6.2.4 Recurrent Expenditure by Location

**Table 20: Recurrent Expenditure by Location (\$m)**

Recurrent Expenditure by Location	Actuals 2021/22	Original Estimates 2022/23	Revised Estimates 2022/23	Estimates 2023/24	Estimates 2024/25	Estimates 2025/26
Nationwide	93.8	135.8	117.0	100.7	104.0	98.1
Tongatapu	222.9	254.0	232.1	268.6	266.8	270.4
Vava'u	15.1	17.0	16.0	19.0	19.0	19.0
Ha'apai	8.1	9.1	8.0	9.7	9.7	9.7
'Eua	5.7	6.7	6.0	6.9	6.9	6.9
Niuaotupatapu	1.9	2.3	1.9	2.8	2.8	2.8
Niuafo'ou	1.4	1.8	1.4	1.8	1.8	1.8
Overseas missions	10.9	10.4	10.4	10.0	10.0	10.0
<b>Grand Total</b>	<b>359.8</b>	<b>437.0</b>	<b>392.8</b>	<b>419.5</b>	<b>420.9</b>	<b>418.7</b>

Source: Ministry of Finance (MOF)

The *Table 20* shows the distribution of the Government's recurrent budget by location. *Tongatapu* with the most population density has largest share of the recurrent budget allocations, averaging at

<sup>6</sup> Between FY 2017-FY 2022 from MORC

over 60 percent per annum. The allocation for FY 2024 is 64 percent, reflecting the volume of economic activities compared to the rest of the islands.

### 6.3 Development Budget

The aggregate development budget for FY 2024 is estimated to \$364.7m which contains of \$96.3m (26.4 percent) as Cash and \$268.4m (73.6 percent) as an in-kind contribution.

**Table 21: Total Development Budget (Development funded Project Expenditure) (\$m), FY 2022-2026**

Source of Fund	Actuals 2021/22 (\$m)	Budget Estimate 2022/23 (\$m)	Estimated Outturn 2022/23 (\$m)	Budget Estimate 2023/24 (\$m)	Projection 2024/25 (\$m)	Projection 2025/26 (\$m)
Cash	120.5	136.1	135.1	96.3	84.2	78.1
Inkind	92.0	191.6	120.3	268.4	243.6	252.9
<b>Grand Total</b>	<b>212.5</b>	<b>327.7</b>	<b>255.4</b>	<b>364.7</b>	<b>327.8</b>	<b>331.0</b>

Source: Ministry of Finance (MOF)

The overall development budget estimate is projected to increase from FY 2023 to FY 2024 by 11.3 percent, reflecting implementation of major infrastructure projects, building resilience to natural disaster, climate change projects and budget support.

#### 6.3.1 Development funded Project Expenditure by Ministry

The *Table 22* illustrates the total development budget allocated by Ministries:

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

MDAs	Actuals 2021/22 (\$m)	Budget Estimate 2022/23 (\$m)	Estimated Outturn 2022/23 (\$m)	Budget Estimate 2023/24 (\$m)	Projection 2024/25 (\$m)	Projection 2025/26 (\$m)	% Budget Estimate 2023/24
Palace Office	-	-	-	0.1	-	-	0.0%
Legislative Assembly	1.0	12.2	6.0	2.6	20.2	20.5	0.7%
Tonga Office of the Auditor General	-	0.2	0.2	0.2	0.2	0.2	0.1%
Ministry of Foreign Affairs	0.3	0.7	0.9	0.3	0.2	0.2	0.1%
His Majesty's Armed Forces	2.7	8.4	6.9	11.7	2.9	5.7	3.2%
Prime Minister's Office	4.1	4.2	1.0	7.4	0.7	0.5	2.0%
Ministry of Finance	65.9	95.6	49.6	22.1	21.6	21.1	6.1%
Ministry of Public Enterprises	-	-	3.1	-	-	-	0.0%
Ministry of Trade and Economic Development	0.3	3.3	0.0	0.5	0.2	0.2	0.1%
Ministry of Justice and Prison	1.7	0.4	1.2	0.4	0.1	0.1	0.1%
Attorney General's Office	0.2	0.1	0.1	0.1	-	-	0.0%
Ministry of Police	0.9	1.1	1.3	3.4	0.6	0.6	0.9%
Ministry of Health	24.1	26.8	24.8	15.2	24.7	50.4	4.2%
Ministry of Education & Training	9.4	29.1	16.6	72.0	62.5	43.6	19.7%
Ministry of Internal Affairs	8.4	3.5	11.9	10.9	8.4	10.3	3.0%
Ministry of Agriculture, Food & Forests	2.3	6.7	4.5	2.8	2.5	2.5	0.8%
Ministry of Infrastructure	47.1	46.6	52.6	123.5	108.5	113.5	33.9%
Ministry of Lands & Natural Resources	2.5	11.0	3.0	14.7	11.4	7.4	4.0%
Public Service Commission	0.0	0.1	0.1	0.1	0.1	0.1	0.0%
Statistics Department	2.2	1.1	1.0	0.9	0.5	0.7	0.2%
Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change	37.0	69.6	64.5	64.1	50.8	46.4	17.6%
Ministry of Fisheries	2.3	6.8	5.6	8.0	5.4	0.5	2.2%
Ministry of Tourism	0.0	0.0	0.1	1.2	5.0	4.0	0.3%
Ministry of Fire&Services	-	0.3	0.3	2.6	1.3	2.4	0.7%
<b>Grand Total</b>	<b>212.5</b>	<b>327.6</b>	<b>255.4</b>	<b>364.7</b>	<b>327.8</b>	<b>331.0</b>	<b>100%</b>

Source: Ministry of Finance (MOF)

The *Ministry of Infrastructure* has the highest allocation of funds with \$123.5m (33.9 percent) followed by the *Ministry of Education & Training* with \$72.0m (19.7 percent), *MEIDECC* with \$64.1m (17.6 percent), *Ministry of Finance* with \$22.1m (6.1 percent), and the *Ministry of Health* with \$15.2m (4.2 percent), with the other line ministries implementing development funded projects in different thematic areas.

**Ministry of Infrastructure (MOI):** The estimated budget for the Ministry of Infrastructure FY 2024 is \$123.5m with a substantial increase by \$76.9m in expenditure from the FY 2023. The major development projects are expected to implement including upgrading of ports, rehabilitation of roads and aviation resurfacing works. The HTHH volcanic eruption and tsunami residential houses reconstruction are currently in progress.

**Ministry of Education & Trainings (MET):** The total budget for the Ministry of Education & Training for FY 2024 is \$72.0m an increase by \$42.9m from FY 2023, reflecting the commencement of the Tonga High School Sports Complex construction. The Skills & Employment for Tongans (SET) Project and the Tonga Safe and Resilient Schools Project (TSRSP) are also progressing with its implementation, aiming to improve the safety and resilience of educational facilities and the establishment of EMIS to motivate the quality of curriculum and assessment. Scholarships and other programmes are continuing to fund by Development Partners.

**MEIDECC:** MEIDECC's budget estimate for FY 2024 is \$64.1m, a decline of 7.9 percent from the current financial year due to the completion of the Outer Islands Renewable Energy Project (OIREP) and the Tonga Renewable Energy Project (TREP). The ongoing programs include the Nuku'alofa Network Upgrade and Wind Power Project seeking more renewable energy sources and reducing dependence on fossil fuels. Climate Change Trust Funds projects are in-progress for resilience water tank and sanitation projects. Pacific Resilience Project is finalising the National Emergency and Management Office (NEMO) and Meteorology Headquarter's design.

### 6.3.2 Development Expenditure by Location

The *Table 23* illustrates the development budget by location: Tongatapu, Vava'u, Ha'apai, 'Eua, the two Niuas, and Nationwide.

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

Location (s)	Actuals 2021/22 (\$m)	Budget Estimate 2022/23 (\$m)	Estimated Outturn 2022/23 (\$m)	Budget Estimate 2023/24 (\$m)	Projection 2024/25 (\$m)	Projection 2025/26 (\$m)
'Eua	2.4	7.6	4.9	8.3	7.9	2.6
Ha'apai	6.8	13.5	8.3	6.8	1.7	2.3
Nationwide	138.0	173.6	136.8	126.6	92.4	94.6
Niuafu'ou	2.0	8.4	4.1	3.9	0.4	0.0
Niutopotapu	0.9	3.1	2.6	0.0	0.0	0.0
Tongatapu	59.1	105.0	81.2	193.9	211.2	195.8
Vava'u	3.3	16.5	17.6	25.1	14.1	35.7
<b>Grand Total</b>	<b>212.5</b>	<b>327.7</b>	<b>255.4</b>	<b>364.7</b>	<b>327.8</b>	<b>331.0</b>

Source: Ministry of Finance (MOF)

**Tongatapu** has the highest allocation by location estimated to \$193.9m. The major projects that are currently executing in Tongatapu are the Nuku'alofa Port Upgrade Project, Tonga High School Sports Complex, Tonga Integrated Urban Resilience Sector Project, Skills and Employment for Tongans, and Wind Power Station.

**Nationwide** with an estimated budgeted for FY 2024, is \$126.6m or 34.7 percent of the aggregate estimate. The ongoing multi-million projects are executing throughout Tonga and its outer-islands including road, energy, drainage, e-government, education, and other recovery programs.

**Vava'u:** Major projects that are currently ongoing in Vava'u are the Transport Resilience Sector assisting in road rehabilitation and maintenance, renewable energy and upgrading of the Fangatongo Military Camp. Estimated budget is \$25.1m, an increase of 52.1 percent from FY 2023.

**Ha'apai:** The estimated budget allocation for Ha'apai is \$6.8m, a decline of 49.6 percent because of completion of the Renewable Energy Project. However, the planned projects include Ha'apai Emergency Warehouse as well as the upgrading of the road and wharf.

**'Eua:** Assurances to 'Eua is estimated to \$8.3m, an increase of 9.2 percent from \$7.6m attributed by the HTHH reconstruction activities, road rehabilitation and wharf upgrade projects.

**Niuatoputapu & Niuafu'ou:** The combined estimated budget for the two Niua total \$3.9m mainly for the renewable energy project and the fisheries sector support.

### 6.3.3 Development Expenditure by Development Partners

Tonga's Development Partners continue to provide support as shown in the [Table 24](#) and the details are provided in the Annex III.

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

Development Partner (s)	Actuals 2021/22 (\$m)	Budget Estimate 2022/23 (\$m)	Estimated Outturn 2022/23 (\$m)	Budget Estimate 2023/24 (\$m)	Projection 2024/25 (\$m)	Projection 2025/26 (\$m)
Asian Development Bank (ADB)	29.8	76.1	60.8	85.4	80.0	99.5
CROP Agencies	0.7	0.7	2.6	1.7	0.8	0.8
European Union	0.4	2.2	1.6	4.3	0.3	0.3
Government of Australia	18.4	94.2	61.2	50.5	71.2	72.9
Government of Japan	4.0	6.4	2.8	2.3	18.2	13.2
Government of New Zealand	19.9	33.9	34.6	32.8	28.7	24.1
Green Climate Fund	8.4	19.3	9.9	16.7	0.0	-
Other Donor	22.6	9.2	7.5	5.8	17.1	6.7
People's Republic of China	30.0	9.4	10.9	41.2	38.0	23.0
Pooled Funds - Australia & NZ	0.1	0.3	0.5	0.5	0.1	0.1
United Nation Agencies	11.3	7.8	13.8	6.5	11.2	12.6
World Bank/International Development Agency (IDA)	66.7	68.4	49.2	117.1	62.2	77.8
<b>Grand Total</b>	<b>212.5</b>	<b>327.7</b>	<b>255.4</b>	<b>364.7</b>	<b>327.8</b>	<b>331.0</b>

Source: Ministry of Finance (MOF)

### 6.3.4 Major Projects for Development Expenditure

[Table 25](#) shows the major projects that are currently implemented by the Development Partners in Tonga. These include Nuku'alofa Ports Upgrade; and the Tonga Renewable Energy Project and Integrated Urban Sector Resilience Project (IURSP) funded by Asian Development Bank (ADB). For the World Bank Projects include the Tonga Climate Resilience Transport Project; Tongafish Pathway Project; and the Skill & Employment for Tonga. THS Sport Complex and Wind Power Station funded by the People's Republic of China. We also acknowledge the kindly donation of \$10.0m (US\$5.0m) from the Government of Saudi Arabia for the National Museum building.

**Table 25: Total Development Budget (Expenditure) by Major Projects (\$m)**

Major Projects	Budget Estimate 2023/24 (\$m)	Projection 2024/25 (\$m)	Projection 2025/26 (\$m)
BS: Fiscal Support for Economic Resilience	27.6	37.0	35.0
HTHH Volcano Recovery Response in Tonga	12.5	0.0	0.0
Integrated Urban Sector Resilience Project (IURSP)	13.9	10.9	6.9
National Museum of Tonga (Saudi Arabia 10mTOPfund)	1.0	5.0	4.0
New Fua'amotu International Airport	0.1	15.0	10.0
Nuku'alofa Network Upgrade Proj	4.0	10.0	0.0
Nuku'alofa Ports Upgrade Project- Queen Salote Wharf	48.8	61.6	58.4
Pacific Resilient Energy Project(PREP)	11.0	9.1	1.3
Parliament New Building	2.0	20.1	20.4
Scholarship	9.5	9.0	9.0
Skills & Employment for Tongan Project	23.2	0.1	0.0
THS Sports Complex	31.0	25.0	2.0
Tonga Climate Resilience Transport Project- TCRTF	51.5	21.1	14.4
Tonga Safe & Resilient Schools Project	15.5	24.7	29.7
Tongafish Pathways Project	6.6	4.8	0.0
TREP- Tonga Renewable Energy Project	24.0	0.0	0.0
Wind Power Station (China Aid)	5.0	10.0	18.0

Source: Ministry of Finance (MOF)

*Annex IV* provides the details.

## 7. CONCLUSION

The theme for the FY 2024 Budget is *“Partnership for greater Resilience and Sustainability to restore Inclusive Growth”*

This represents the underlying efforts towards economic recovery through continued collaboration with all key stakeholders, in order to improve the standard of living of all Tongans. The Government is committed to reinvigorating the country’s economic recovery, through a focus on sustainable development, inclusivity and partnership.

The Government’s fiscal deficit position in FY 2024 will prioritize funding options from the DFAT budget support, increase domestic revenue, reduction of tax exemption and domestic bonds. Targeted spending will focus on three thematic areas: (i) Priority Activities to build Resilience against Climate Change, relative poverty and illicit drugs (ii) Priority Activities to improve the quality of services affordability including improvements in quality education and healthcare and (iii) Priority Activities to promote progressive economic growth. The Government’s recovery efforts will be guided by the continuation of the approved HTHH Recovery Plan and the respective sector plans, aiming to restore reconstruction and ensuring sustainable inclusive growth in the economy.

The economic growth outlook is positive for the medium term, assisted by government efforts to restoring infrastructure, diversification of the economy and improving macroeconomic stability. In order to improve macroeconomic sustainability and ensure sustainable and equitable growth, the government plans to prioritise fiscal sustainability, and the current fiscal forecasts indicate improvements to the national fiscal deficit through revenue based structural reforms.

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

We acknowledge the support provided by our development partners during the difficult times and hope for further collaboration on such matters in the future.

We also acknowledge the support of the Tongan diaspora overseas in maintaining remittances, which constitutes a major part of our GDP.

The respective ministries are strongly encouraged to streamline expenses to prioritize budget allocations toward the most pressing needs and priorities.

I wish to reiterate our Budget Theme: *“Partnership for greater Resilience and Sustainability to restore Inclusive Growth”*

Last but not least, we give our thanks to the Almighty God, for all the love and protection we have received. Our prayer is that we ensure sustainable and inclusive economic growth, by working together as one.



## **ANNEXES**

## ANNEX I: MACROECONOMIC AND FISCAL OUTCOMES AND OUTLOOK

### 8.1 Status of the economy and outlook

#### Global Highlights

The global economy is currently facing several challenges that may hinder its growth in the near future. These include rising inflation, slowing economic growth in China, and the ongoing impact of the COVID-19 pandemic, as well as the effects of the Russian invasion of Ukraine. To combat inflation, the United States has implemented measures to tighten its monetary policy, and other countries are following suit. Meanwhile, Europe is struggling with a significant energy crisis that is having a negative impact on both living standards and economic activity.

According to the International Monetary Fund, global growth is expected to be 3.4 percent in 2022 and 2.8 percent in 2023, because of the outlined challenges to the global economic outlook highlighted above. The growth of advanced economies is expected to experience a substantial deceleration, dropping from 2.7 percent in 2022 to 1.3 percent in 2023, which will affect Tonga's economic recovery in the medium term.

According to the recent report by the Asian Development Bank, the growth forecast for developing Asia's growth remains positive, with expected growth rates of 4.2 percent in 2022 and 4.7 percent in 2023. However, this outlook remains vulnerable to a slowdown in the People's Republic of China (PRC), combined with a rising inflation rate. The PRC is experiencing the effects of COVID-19 lockdowns and a struggling property sector, which is affecting both domestic and global economic activities. A sharp global growth deceleration, further monetary policy tightening schemes in advanced economies, a further escalation of the Russian invasion of Ukraine, a more significant deceleration in China (PRC), are likely risk factors for this outlook.

#### Regional Highlights

According to the Asian Development Bank's Pacific Economic Monitor, the Australian economy is forecasted to grow by 3.9 percent in 2022 and 1.9 percent in 2023. This is related to the easing of COVID-19 related restrictions, which have led to a rise in spending on travel-related items such as transport, hotels, and restaurants. The economy has also been driven by an increase in household spending of around 2.2 percent. Meanwhile the New Zealand economy is expected to grow by 2.2 percent in 2022 and slowdown to 1.8 percent in 2023. The country is currently facing an annual inflation rate of 7.3 percent, which is the highest the country has seen in the past 32 years. As a result, the Reserve Bank of New Zealand has adopted a hawkish stance on inflation, which has helped lower growth expectations. A potential slowdown of the New Zealand and Australian economies could affect Tonga in the medium term, in the fronts of development assistance and remittances from Tongan diaspora.

The Pacific subregion is expected to witness a faster economic expansion, projected to grow by 5.3 percent this year, surpassing the growth forecasted in the Asian Development Outlook 2022. The improved outlook is mainly attributed to the recovery in tourism in Fiji, along with an upward adjustment to Papua New Guinea's growth forecast driven by the minerals sector's resurgence and increased spending related to the election. Nonetheless, several economies in the region, such as Tonga, Palau, the Marshall Islands, Samoa, and Solomon Islands, are facing downward revisions in their growth prospects due to the impact of COVID-19 restrictions and other factors. In 2023, the growth outlook is revised downward to 4.8 percent following Fiji's stabilization post the tourism sector's strong performance in 2022. The rise in inflation is expected to be steep, given the elevated international prices, which would disproportionately affect smaller island economies with limited economic bases and high import reliance.

#### Domestic Economy

The prospects for growth in the domestic economy are heavily reliant on the recovery, following the re-opening of the international border. The preceding two fiscal years experienced negative growth of -2.7 percent for FY 2021 and -0.4 percent for FY 2022, primarily due to the adverse impact of COVID-19 and

the related health, travel, and hospitality restrictions on all sectors of the economy. Notably, the tourism sector was hit hardest, with accommodation and restaurants, as well as other related tourism sectors, experiencing significant declines.

The current fiscal year's economic growth is projected to reach 2.8 percent, assuming a positive outcome from the opening of the international border, which will enable tourists to visit Tonga and experience its unique attractions, including the impact of the HTHH. Several cruise ships have already arrived in Tonga, contributing to the recovery of the domestic economy. However, the geopolitical events occurring in the global economy can also impact our domestic economy, particularly as high prices for goods. This issue will be discussed further in the following section.

While trade activities have recovered, logistical issues have presented some challenges. Imports have rebounded to their pre-pandemic levels, resulting in a substantial trade deficit for Tonga.

### Outlook for Tonga

The outlook for Tonga is positive however with the continuous high risks arising from geopolitical events in the global arena, there is a degree of uncertainty in the economic situation. The country's economic growth forecast for the medium term is estimated to average 2.5 percent, attributing to the continuous recovery activities and planned development projects expected to occur in outer years. While recovery is expected to continue, there is less fiscal space for government activities because of the high debt repayment expected in FY 2024, which represents a significant risk factor.

The current events and economic situation in our neighboring countries including the recent natural disasters such as the recent flooding in New Zealand, in labour shortages, and supply chain disruptions have already taken a toll on the economy, which may affect financial assistance from our neighboring countries. A potential slowdown of the New Zealand and Australian economies could affect Tonga in the medium term, in the fronts of development assistance and remittances from Tongan diaspora.

The financial sector has excess liquidity available to support development, but its effectiveness will depend on the private sector's capacity to absorb these funds.

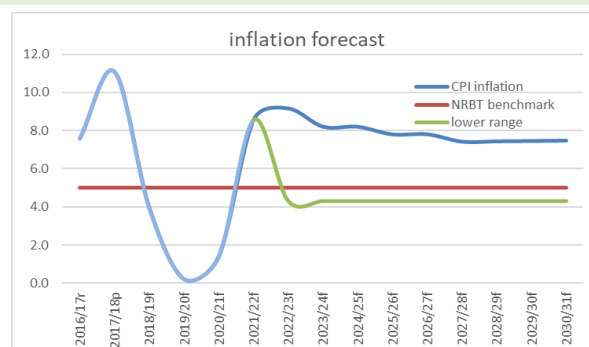
Another significant risk to the country's forecast is posed by climate change. Tonga has been experiencing heavy rains, which have affected the livelihoods of many residents, destroyed roads, and affected communities. It is expected that there will be a need for interventions related to climate change in the near future.

Overall, the country faces significant risks in terms of geopolitical events, debt repayment, and climate change. It will be crucial for all relevant stakeholders to monitor these factors closely and take necessary actions to mitigate the impact on the domestic economy.

### Inflation forecast

The outlook for inflation remains opaque, given the current global economic environment and the ongoing geopolitical events. At present, the data, along with analysts' expectation, forecast inflation being around the level 4.3 percent at the lower limit and 8 percent at the upper limit by the end of the current financial year. In the medium term, inflation is likely to stabilize, given the elevation of interest rates by major economies such as the United States, United Kingdom and the European Union. Inflation will be heavily linked to the movement of global energy prices, whilst there is a decrease in global energy price levels, it remains vulnerable to significant global events, such as the tensions between Russia and Ukraine.

A-Figure 1: Inflation Forecast



Source: Ministry of Finance (MOF)

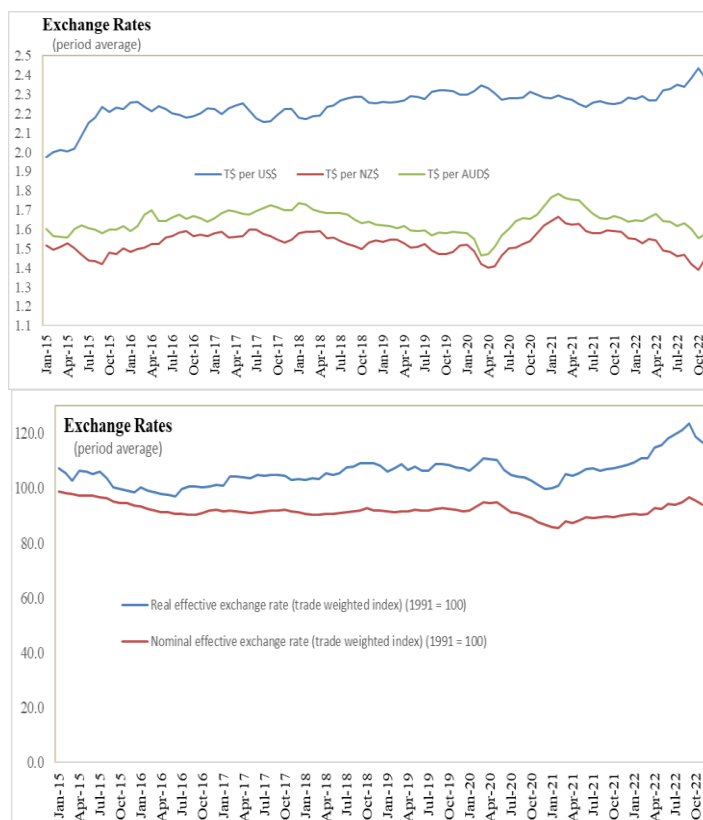
### Exchange Rate

The forecast of the exchange rate is a multifaceted task that requires careful consideration of economic and political factors. Despite the perceived difficulty of forecasting exchange rates, it remains a necessary component of financial planning and policy making.

Recent data suggests that the Tongan Pa'anga has weakened against several major currencies, including the Australian dollar, New Zealand dollar, Fijian dollar, Japanese yen, Chinese yuan, and Euro. This can be attributed to lower remittance flows from New Zealand, the United States, and Australia, as well as reduced exports to major markets. Both the Nominal Effective Exchange Rate (NEER) and the Real Effective Exchange Rate (REER) have declined over the past month, as reflecting by the trend.

It is important however to note that the forecast for the exchange rate is subject to significant uncertainty and volatility. To mitigate this risk, it is crucial to consider a range of economic indicators and political developments, such as inflation rates, interest rates, political stability, trade policies, and economic growth.

A-Figure 2: Exchange Rates – REER and NEER



Source: Ministry of Finance (MOF)

By monitoring these factors and staying informed about shifts in the global economy, policymakers and financial professionals can make informed predictions about future exchange rate trends. Although there are no guarantees in this realm, a thoughtful and well-informed approach to exchange rate forecasting can help to minimize risk and increase the likelihood of achieving desired outcomes.

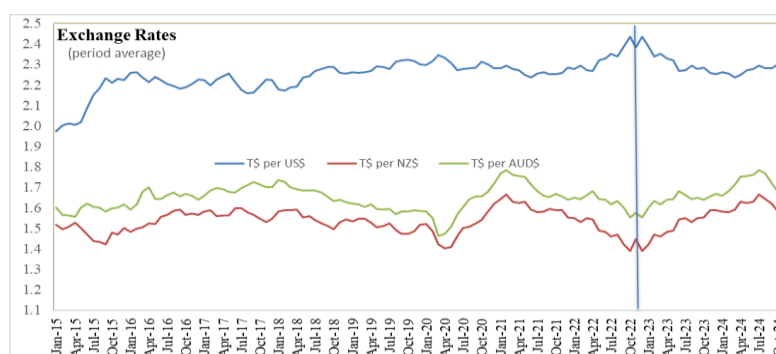
## Exchange rate forecast

The future exchange rate outlook is contingent on several factors including the expected loan repayments to China, demand for Tongan currency from Tongan communities overseas, and activities related to global trade. The future economic growth rates of New Zealand, Australia, and the United States, where a majority of Tongan diaspora reside in, will have an impact for the future exchange rate movements.

In order to make informed predictions about the future exchange rate trends, it is essential to monitor closely and analyze these factors. By doing so, policymakers and financial professionals can proactively manage potential risks and leverage opportunities for Tonga's economy.

Overall, a comprehensive understanding of these complex economic forces is critical for sound financial planning and policy making. Through careful analysis and strategic decision making, Tonga can navigate the dynamic global economic landscape and promote long-term prosperity for its citizens.

*A-Figure 3: Exchange Rate Forecast*



Source: Ministry of Finance (MOF)

## Growth projections by key sectors<sup>7</sup>

### Primary Sector: (18.0 percent of GDP)<sup>8</sup>

In FY 2023, the sector is expected to see a positive growth of 1.6 percent, which is an improvement from the previous year's negative 0.9 percent (FY 2022). This growth is attributed to an upward trend in the agricultural sector, mainly in squash (butternut), root crops and bananas. In addition, there is an increase in the fisheries sector, especially on commercial fishing varieties of fin fish, tuna and anadara. It is expected that both exports and local produce will increase, as the government plans to distribute more funds through public-private partnerships to support the sector.

The agricultural sub-sector remains the dominant contributor to the primary sector, accounting for 16.1 percentage points of the sector's GDP share. Looking ahead, the sector is expected to experience moderate growth, averaging 2.6 percent, with a focus on food security and recovery. There is a concerted effort to increase import substitution to boost domestic production, and to increase export volume.

However, long term risks continue to dominate the sector. Island nations such as Tonga are especially vulnerable to climate change and rising sea levels. Natural disasters such as the HTHH have immensely affected the country, and we expect future corporation from our multilateral and bi-lateral partners to improve this sector, to its fullest potential.

**Agriculture and Forestry:** The agriculture and forestry sectors are expected to experience positive growth in FY 2023, with a projected increase of 2.5 percent from the previous year's negative 0.6 percent. This reflects the recovery rebounding from the impact of the HTHH eruption and COVID-19. A slight increase was noted in the volume of agricultural exports, especially in kava, squash (butternut), banana and watermelons.

<sup>7</sup> Percentage of key sectors contribution to GDP yet to include other imputed fees and charges (include subsidies, interest and bank fees).

<sup>8</sup> Primary Sector comprised of 2 subsectors: Agriculture & forestry sector and Fisheries subsector.

The agriculture sub-sector is projected to maintain an average growth rate of 2.8 percent in the medium term. Priorities for this sector include planting one million plants throughout Tonga, planting vanilla, hiapo, kava, pandanas in rural areas, and vegetables in home gardens. Additionally, the planting of processed products such as pineapple, apele initia, and breadfruit is expected to contribute to the growth of the sector.

**Fisheries:** The sub-sector's growth is expected to improve from negative 5.7 percent in the previous year to negative 3.7 percent in FY 2023. This improvement is attributed to an increase in the monthly volume data of local/export fish production in fin fish, anadara, and tuna in recent months up to January 2023. The reopening of our borders is expected to gradually revive the export of the fisheries sector. The sector is projected to recover at an average growth rate of 0.5 percent in the medium term.

There is also growth expected in the development of new fisheries, such as squid, and existing fisheries, such as tuna, snapper, marine aquarium, seaweed, and coastal fisheries. The special management area and the development of aquaculture in pearl, sea cucumber, tilapia, mud crab, prawns, seaweed, etc are expected to contribute to this positive trend.

### **Industrial Sector <sup>9</sup>(13.5 percent of GDP)**

The industrial sector is a driving factor of growth and a key contributing factor to the economic recovery. The sector is estimated to rebound from the negative growth of 3.9 percent in FY 2022 to a negative growth of 0.7 percent in FY 2023. This is attributed to the ongoing economic activities, including the HTHH recovery reconstruction, climate change related projects such as OIREP and TREP.

The industrial sector growth was led by the construction sub-sectors: mining & quarrying, electricity, and water. Alternatively, the manufacturing sub-sector showed a similar trend to businesses that are affected due to the pandemic. The medium-term outlook is promising with a positive growth forecast, averaging 3.8 percent, mainly attributes to the ongoing, new projects and activities that are expected to implement in the outer years.

**Construction** remains the key driver of industrial sector growth and a key contributing factor to the growth of other sectors of the economy. The sector improved from the negative 10.7 percent in FY 2022 to a negative 3.7 percent in FY 2023. The negative growth estimated in FY 2022 reflects the completion of major construction projects, including the TC Gita Reconstruction, Early Warning System, Emergency Operation Centre for natural disasters and the decrease in public construction because of the delay in the implementation of major projects. These include projects such as the Fanga'uta bridge and the New Parliament building. The economic growth for this current financial year FY 2023 was driven by the HTHH Reconstruction activities and the commencement of major project such as Tonga High School Complex and the extension of Queen Salote Wharf.

The outlook for the medium term is positive, and depends on the development projects funded by the Development Partners. The major projects in the pipeline include the Fanga'uta Bridge, Court Complex, New Parliament Building, Safer School and Public Private Partnerships investment project which are expected to commence in FY 2024. The Government has reviewed the National Infrastructure Investment Plan (NIIP) to reflect the current priorities under infrastructure development.

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

**Electricity and Water Supply:** sector growth in FY 2022 increase to positive 3.7 percent in line with the positive growth in the construction activities. Outlook is forecast to pick up to an average of 4.0

<sup>9</sup> Industrial or Secondary Sector comprised of 4 subsectors: Construction, Manufacturing, Electricity & Water Supply, and Mining & Quarrying.

percent because of an anticipated further expansion in the services and an increase in construction activities.

**Manufacturing:** growth in FY 2022 was 0.5 percent and it expects to strengthen at an average of 0.8 percent in the medium term. This is reflected in the increase in demand for construction materials and inputs, water, bread and others.

### *Services Sector<sup>10</sup>: (49.0 percent of GDP)*

The services sector projects growth at 4.1 percent for FY 2023, rebounding from a negative 3.3 percent growth in FY 2022. The upward revisions are attributed to the resumption of economic activities in all the services sub-sectors: tourism, wholesaler and retailer, communication, government services, health and education, following the reopening of boarder in September,2022.

The lifting of COVID-19 restrictions has resulted in a significant rebound of tourist arrivals for the FY 2023 compared to FY 2022. International tourist arrivals continue to trend positively, with the volume of visitors travelling via sea cruises and airlines increasing by 105 percent (5,599 arrivals) in FY 2023 compared to FY 2022. It is expected that tourist arrivals will reach the pre-pandemic levels in the medium term, if there are no further negative external shocks to the economy. This bodes well for the medium-term economic development of Tonga, especially for the communities in the tourist dependent outlying islands.

The continued flow of remittances from the families abroad and the labour mobility scheme to Australia and New Zealand have contributed to the revival of economic activities in the services sector. These include the Health and Education subsectors, particularly during COVID-19 and the HTHH eruption.

The higher economic growth predicted in the medium term is likely to seep into growth in the services sector, with the sector projected to grow at an average of 3.8 percent in the medium term.

**Wholesale & Retail Trade** continues to be the main sub-sector of the Services Sector. This segment has shown sluggish growth this year, with the growth rate being slightly revived from a negative 9.8 percent in FY 2022 to negative 6.0 percent in FY 2023. The global economic shocks due to the impact of the Russia Ukraine crises, and the supply sided expenses in the global logistics sector have combined to increase inflation. The retail trade has been especially affected higher import prices for food and energy, and these issues remain a medium-term threat. Hence, the level of confidence in the business sector decreases with continued uncertainties in the external sector, driving down consumer demand.

Despite these concerns, our forecast for the medium term is positive. This optimistic forecast takes into account the constructive implementation of the Electronic Sales Register System (ESRS) by the Ministry of Revenue and Customs. There were 27 taxpayers' businesses which began in July 2022 and 22 businesses in December 2022. This will help drive improvements in sales revenue and collection. The Government's prudent fiscal policy and the Reserve Bank's accommodative monetary policy stance have contributed to improvements in the sub-sector, these policy stances will continue in the medium term, helping to gradually improve the sector towards recovery.

**Accommodation and food service activities (Tourism industry):** The tourism industry has been severely disrupted by the double crisis, HTHH volcanic eruption and the outbreak of COVID-19 in February, 2022. This caused extensive damages to most of the tourism infrastructure and brought virtually all related activities to a halt during the period of national lockdowns.

The re-opening of borders in September 2022, along with the loosening of restrictions on air travel in major tourist arrival destinations such as New Zealand and Australia, have contributed positively to the growth rebound. This has resulted in an incremental increase in travel receipts estimated at \$39.8m on

<sup>10</sup> Services or Tertiary Sector comprised of Wholesale & Retail Trade, Transport & Storage, Accommodation & food services (Tourism industry), Information & Communication, Public admin & Defence, Financial and insurance service activities, Health and social activities, Education, and others.

average for the last 5 months of 2022. The forecasted growth for FY 2023 for the tourism industry is positive, rebounding from the negative growth predicted in FY 2022. It is estimated that the industry will grow by 22.9 percent on average, over the medium term.

The government has supported strong fiscal policy initiatives, to support economic recovery and reconstruction efforts. These include the restoration programmes carried out to support resorts which were seriously affected by the HTHH. In addition, the industry will receive a major boost from the scheduled visits of 13 cruise ships for the rest of the year. The government has also proposed initiatives for Tonga's First Luxury Beach Hotel and Resort, which will certainly boost the growth of the sector in the medium term.

The inherent volatility associated with the global tourism sector remains a major risk factor for the industry. The sector is very vulnerable towards natural disasters such as tsunamis, earthquakes and cyclones, and reacting to such extreme weather events through global partnerships will be important for the sector's revival and long run growth.

**Human Health & Social Work Activities** were projected to grow at 4 percent in FY 2023, which is 3 percentage points lower than growth in FY 2022. The sluggish growth was because of a gradual normalization of the economy following the COVID-19 pandemic. The Ministry of Health continues to provide relevant support as required, along with supporting the move to live with COVID-19. Moreover, considering the rise in staff turnover caused by several skilled nurses resigning and seeking employment opportunities abroad, the government is exploring potential options for additional recruitment.

Global disruptions, including COVID-19 and the political tension between Russia and Ukraine, have affected inequality in the country. Hence, the government has focused its attention on social protection through the proposed establishment of the National Social Protection Policy, with the assistance received from the World Bank. Simultaneously, the Government in co-operation with the Ministry of Health with the support of Development Partners is implementing activities under GPA 2 and GPA 5 contribute to the sector development and growth.

**Education Sector:** The growth for the Education sub-sector was projected to be 3.3 percent growth in FY 2023 and continues at the average of 3.7 percent growth over the medium term. The positive outlook reflects the ongoing work and planned strategy to improve education for all and to develop the sector. These works include the establishment of the first Tonga National University (TNU), upgrading of Primary School to Form 2 level, the discontinuation of the Form 5 level TSC Examination, subsidies for ECE primary schools and also the work towards school drop-out issues. The Government also supported the sector through sending relief grant support to the thirteen (13) students in Vanuatu which were affected by Tropical Cyclone Judy and Kevin in February 2023.

## **8.2 Tonga's Recovery and Resilience to Climate Change and Disasters**

Tonga, in partnership with development partners, is now in a recovery phase following the onset of the COVID-19 pandemic and the HTHH disaster. These events have severely impacted tourism, transport, communication and other economic sectors, and caused destruction and substantial damages to properties of both public and private infrastructure, and caused loss of lives. In response, the government has taken a multi-faced approach to support the country's post-pandemic and HTHH recovery, with a focus on both short-term relief measures and long-term economic development.

### **Post-pandemic and HTHH Recovery**

Given the high vulnerability of Tonga to natural disasters, climate change, and external shocks such as the global pandemic, the government has implemented a range of measures to support the country's post-pandemic recovery, including vaccination campaigns, economic stimulus packages, border control



measures, and increased funding for education and health sectors. The funding aimed to improve infrastructure and services, as well as increasing the capacity of health workers and educators.

The government, together with the support from development partners, has also implemented various efforts as for the country's recovery from the HTHH disaster. Some of the notable efforts include:

1. **HTHH Recovery Plan:** the government has developed a HTHH Recovery Plan to guide its recovery and reconstruction related activities not only to accountable to development partners assistance, but also committing to ensure that no one is left behind;
2. **Household and social support:** the government has provided social support to vulnerable groups such as the elderly and people with disabilities, including food assistance and financial support;
3. **Residential and housing support:** the government has provided the affected households with residential and housing especially those that residential building was completely destroyed and damaged by the disasters;
4. **Infrastructure investment:** the government has prioritized infrastructure investment as a way to stimulate economic growth and create jobs. This includes investments in roads, water systems, and renewable energy;
5. **Tourism recovery plan:** as the tourism industry has been hit hard by the pandemic, the government has developed a tourism recovery plan to support the industry's recovery and efforts to promote the country as a safe and attractive destination for international visitors. The plan includes measures such as marketing campaigns, infrastructure improvements and support for small tourism businesses;
6. **Disaster preparedness:** the government increased in its disaster preparedness efforts considering the recent volcanic eruption and tsunami, such as conducting drills and simulations to test its response capacity and has developed plans for emergency response and recovery;
7. **Secure funding:** government made efforts to ensure there is funding available for emergencies under the Emergency Act, and Resilience Funding.

The estimated outturn as of 30<sup>th</sup> June 2023 is equivalent to 14 percent of the total cost of the approved HTHH Recovery Plan. This approved plan is subsidised by the Government and development partner agencies. Simultaneously, the Tongan diasporas, private sectors, NGOs, and Charitable organizations also contributed in various modalities.

The updated financing of the plan is summarised in the *A-Table 1* below:

The Government will continue its efforts to explore new and trusted financing options to ensure that the Recovery Plan is funded.

**A-Table 1: Updated HTHH Recovery Funding for the medium term**

<b>SUMMARY</b>	
<b>Total Recovery Cost [A]</b>	<b>567,683,155</b>
<b>Revise Estimate (Outturn) [B]</b>	<b>81,901,849</b>
<b>Net Total Recovery Cost [C]=(A-B)</b>	<b>485,781,306</b>
<b>Total Proposed Funding [D]</b>	<b>214,228,151</b>
<b>1. Firm Commitments</b>	<b>105,318,151</b>
Government Funds	-
Development Funds	105,318,151
<b>2. Soft Commitments I</b>	<b>58,910,000</b>
Ongoing Projects	46,910,000
Confirmed Project	12,000,000
<b>3. Soft Commitments II</b>	<b>50,000,000</b>
Pipeline Projects	50,000,000
<b>Total Unfunded Recovery Cost [E]=(C-D)</b>	<b>271,553,155</b>

Source: Ministry of Finance (MOF)

## Job Creation

Despite the challenges that Tonga faced after the COVID-19 pandemic and HTHH eruption in 2022, Tonga has kept its unemployment rate relatively low at 4.0 percent as of 2022<sup>11</sup>. This suggests that there are job opportunities available for those who are actively seeking work. The 12 months advertised job vacancies to March 2023<sup>12</sup> rose by 500 job vacancies, an increase of 140.8 percent from a year earlier. This high demand

<sup>11</sup> ILO November 2022

<sup>12</sup> NRBT Monthly Economic Update March 2023

for labour can be attributed to increasing offers of residency visas by the Australian and New Zealand governments, which contribute to the vacating of domestic employment, along with the ongoing labour mobility schemes. The seasonal worker program to New Zealand and Australia also presents a potential avenue for job creation, as it has increased by 134 percent from 2021 to 2022. The HTHH construction works can help generate jobs and contribute to the local economy, making it a viable option to promote job creation in the area. Promoting investment in sectors such as tourism, manufacturing, and public administration can help to improve job opportunities in the region.

Government prioritizes the creation of new employment opportunities locally and support the expansion towards work opportunities abroad (seasonal employment expansion to other areas). On that note, ongoing training and capacity building continues to ensure relevant skills are acquired according to the labour market.

### Information Systems and Communication Technology

Following the volcanic eruption, a redundancy connection plan was established for the Ministry of Finance and the government to communicate with the Outer Island Office, through TCC satellite connection. The connections to Vava'u, Ha'apai, 'Eua, and Niuas have been completed, though the works towards installing fibre link is in progress. Government is prioritizing IFMIS project and is financially supported by DFAT.

### 8.3 Fiscal Objectives

Government objectives over the medium term will focus on PFM three (3) key 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 maximise the attainment of government objectives and as set out in the TSDF 2); and (iii). Operational efficiency (i.e.: use resources efficiently and effectively in implementing strategic priorities in the MDAs Corporate Plan).

The FY 2024 – FY 2026 medium term budget framework will support the Government Priority Agendas by implementing the following fiscal objectives:

The Ministry of Finance fiscal targets are summarised below.

*A-Table 2: MOF Fiscal Targets*

Fiscal Policy	Short-term	Long-term
<b>Growth</b>	Tonga's economy had experienced a 0.4percent averaged growth rate in past five years 2017–2021. Growth is forecast to further contract to negative 3.0 percent in 2022 and to recover at an average of 2.6 percent in 2023-2025. This is through building resilient in recovery and local investment.	Growth long-term target of 3.0 to 4.0 percent growth per annum consistent with macroeconomic stability.
<b>Debt</b>	In line with Government Debt Strategy 2021-2025, aiming to reduce debt distress: (i) no new non-concessional external borrowing, except for high concessional if need to borrow; (ii) reduce current external debt by loan principal repayment (start in FY 2024 – 2029); (iii) external borrowing will be as last resort; (iv) there's room for domestic loan as a financing option for FY 2024(\$8.0m).	The objective is to manage debt risks to Government. Government can only borrow as last resort in terms of financing option.
<b>Operating balance</b>	The Government will use fiscal policy to increase productivity and affordability of key public services through implementing of the PFM reforms (organisational review), focus on addressing negative impacts due to inflation, climate change and on vulnerable groups, support human development, including the establishment of the Tonga National University and quality health.	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.

<b>Revenue</b>	Target is to Improve revenue collection through: (i) continuous implementation of revenue reforms; (ii) strengthen compliance and administration, and (iii) review of tax exemption over the medium-term, FY 2024-2026, purposely to improve revenue collection.	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.
<b>Expenses</b>	Target is to rationalise/prioritise government spending through control the wage bill within fiscal anchors, (iii) improve fiscal discipline and transparency, (iv) ensure expenses are adequate for improving education, health and building national resilience, capacity building	Target is to meet PFM objectives in relation to government expenses i.e., allocative efficiency and operational efficiency.
<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 (inflation is projected to gradually ease below 5 percent target in 2023).	Maintain price stability consistent with the current economic situation and to ensure macroeconomic stability.
<b>Unemployment</b>	Government objective is to create new employment opportunities locally and expand the horizon in terms of opportunities abroad (seasonal employment expansion to other areas).	The Government will ensure constant increase in new employment opportunities for our young population. This will be through organisational review and appropriate salary adjustment.

Source: Government of Tonga, Budget Strategy FY 2024, Ministry of Finance (MOF); NRBT Report 2023

### 8.3.1 Macroeconomic stability, sustainable fiscal resources, and social programs

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

- *Promoting opportunities to increase resilience*

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

- ✓ electricity price subsidy (lifeline tariff targeting consumption below 150 kilowatts);
- ✓ education school fees (SET Projects);
- ✓ education HAMA e-learning platform;
- ✓ financial facility (top up GDL facility);
- ✓ completion of HTHH housing reconstruction;
- ✓ investment on restoring growth in key sectors (PPP).

The Government will continue to explore and consider options given the geopolitical tensions in the global arena, and the seriousness of the effects on our inflation through the imports of petroleum and food supplies. This will include joint effort with NRBT on implementing feasible options and measures, aiming to reduce inflation, i.e.: mobbing liquidity from the financial system.

- *Capacity building: address weak capacity and institutions*

Government is committed to implement reforms, including institutional strengthening, organizational review and capacity development to enhance Government service delivery to the most vulnerable groups and the general public.

### 8.3.2 Public Debt Position

Prior to the COVID-19 pandemic, Tonga's economy was already considered to be at high debt distress according to the IMF. Because of the current year Budget's deficit, Tonga took advantage of the IMF's help and support to the Low-income countries with financial funds through Rapid Credit Facility (RCF) in case of an urgent need for Balance of Payment. The RCF was given its highly concessional terms and conditions (free-interest loan), in order to comply with the MTDS. The MTDS 2021-2025 was setting the Debt Policy to remain with no new non-concessional borrowing except borrowing from highly concessional facilities and domestic market development. The Government is also exploring to manage risks such as exchange rate risk of the current external debt portfolio at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.

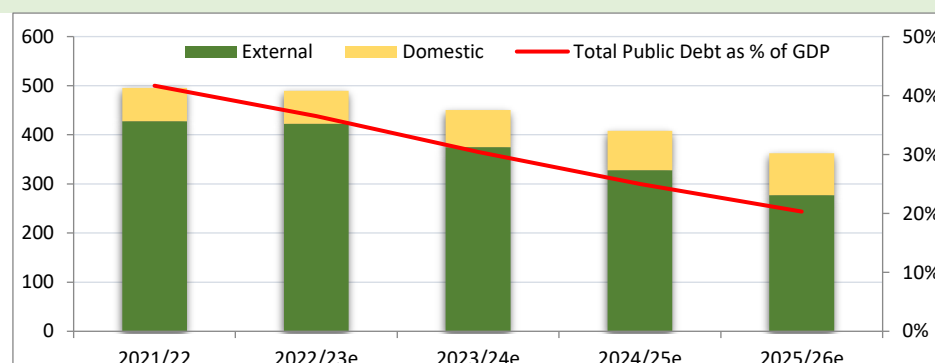
Government of Tonga is expecting a rapid increase on its debt service in FY 2024 and the next 4 years due to the commencement of the principal repayment of the Nuku'alofa CBD Reconstruction project loan to China EXIM Bank. Total debt service due to China EXIM Bank in FY 2024 is estimated at \$45.0m, which accounts for 68 percent of Tonga's total debt service for FY 2024. The Government has established Debt Repayment Sinking Fund to assist with the high debt service in the next four years. The Government is also looking at the option of refinancing a portion of the external debt through issuing domestic bonds at lower interest rates and longer maturity.

#### Total Public Debt

The current debt portfolio is exposed to refinancing risk and exchange rate risk. The share of debt denominated in foreign currencies is estimated to be 86 percent of total debt as of 30<sup>th</sup> June 2023. The portfolio has a large exposure to the Chinese renminbi (CNY) which represents 52.6 percent of the total outstanding debt. Refinancing risk mainly arises from the principal repayments, scheduled from 2024 to 2029, of two large loans provided by the Export-Import Bank of China (China EXIM Bank). Although the outstanding amount of domestic debt represents only 14 percent of total outstanding debt, the refinancing risk is elevated considering 18 percent of the domestic debt portfolio is maturing with 1 year and the ATM is low (2.7 years).

Total public debt as at 30<sup>th</sup> June 2023 is estimated at \$489.0m (37 percent of GDP), a decrease of \$5.8m, account for 1 percent from June 2022.

A-Figure 4: Total Public Debt (\$m) FY 2022 – FY 2026 (including actual and projected)



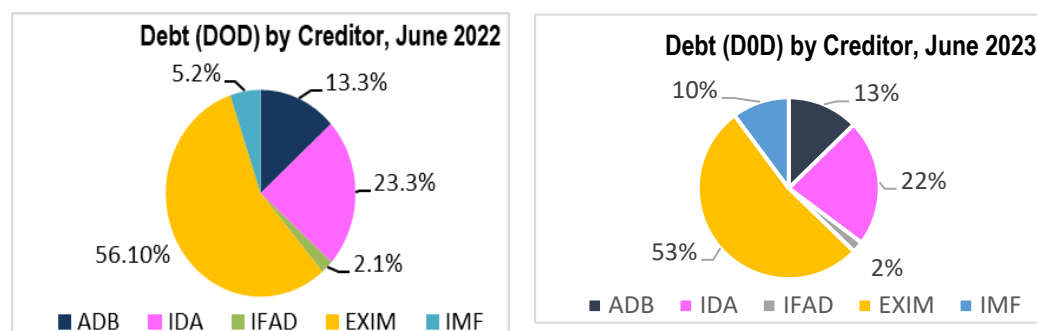
Source: MOF [Financial Framework Division (FFD)-Debt Unit]

#### External Debt

Total external debt as at 30<sup>th</sup> June 2023 is estimated at \$422.0m (31 percent of GDP). The main outstanding currency denomination of the external debt, as at 30<sup>th</sup> June 2023, is estimated as (CNY) at \$222.0m (53 percent), and the Special Drawing Rights (SDR), and other currencies at \$200.0m (47 percent). The Government will also review other options for loan repayments considering refinancing risk and exchange

rate risk. The projected changes in value from June 2022 to June 2023 due to the repayment made to China EXIM Bank, ADB loans and loan receipt from IMF during FY 2023.

**A-Figure 5: Debt by Creditor FY 2022 and FY 2023**

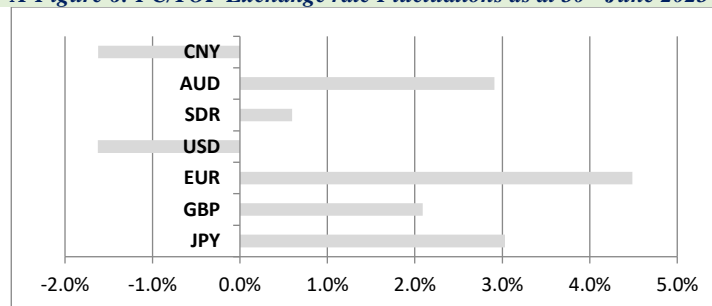


Source: MOF [Financial Framework Division (FFD)-Debt Unit]

### Currency Denomination of External Debt

The major borrowing currency CNY and USD is expecting to both depreciate against Tongan Pa'anga by 1.6 percent between June 2022 and end of June 2023. *A-Figure 6* illustrates the fluctuations of borrowing currencies including basket currencies of Special Drawing Rights (SDR).

**A-Figure 6: FC/TOP Exchange rate Fluctuations as at 30<sup>th</sup> June 2023**



Source: MOF [Financial Framework Division (FFD)-Debt Unit]

### Domestic Debt

Domestic Debt is composed of Treasury bonds with tenors ranging from 3 years to 6 years. The Government has mainly issued bonds with a maturity of 5 years. *A-Table 3* shows the outstanding amounts by tenor as of 30<sup>th</sup> June 2023. Issuance is authorized and capped by the Minister of Finance, while the National Reserve Bank of Tonga (NRBT) acts as the registrar of domestic bond issuance.

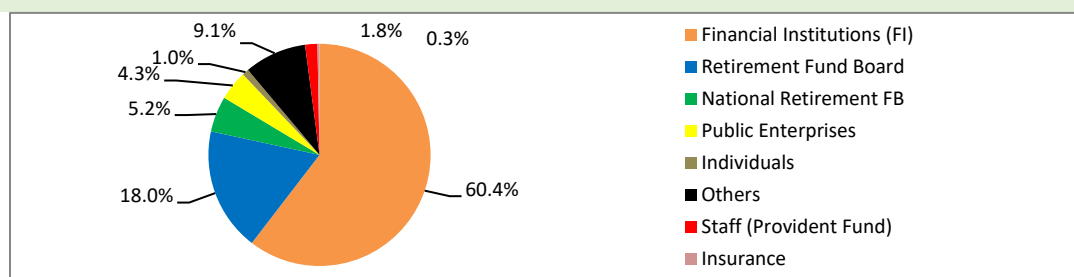
**A-Table 3: Outstanding amounts by tenors as at 30<sup>th</sup> June 2023**

Tenors (Years)	as of 30 June 2023,	
	Outstanding (in TOP)	% Total
3	16,126,000	24%
4	6,000,000	9%
5	35,517,000	53%
6	9,704,000	14%
<b>Total</b>	<b>67,347,000</b>	<b>100.0%</b>

Source: MOF [Financial Framework Division (FFD)-Debt Unit]

Total domestic debt as at 30<sup>th</sup> June 2023 is estimated at \$67.3m (5 percent of GDP), consisting of 100 percent Government bonds on issue. Most of the bonds at 62 percent are held by Financial Institutions as shown in *A-Figure 7* below.

**A-Figure 7: Government Bond Holders as at 30<sup>th</sup> June 2023 (%)**



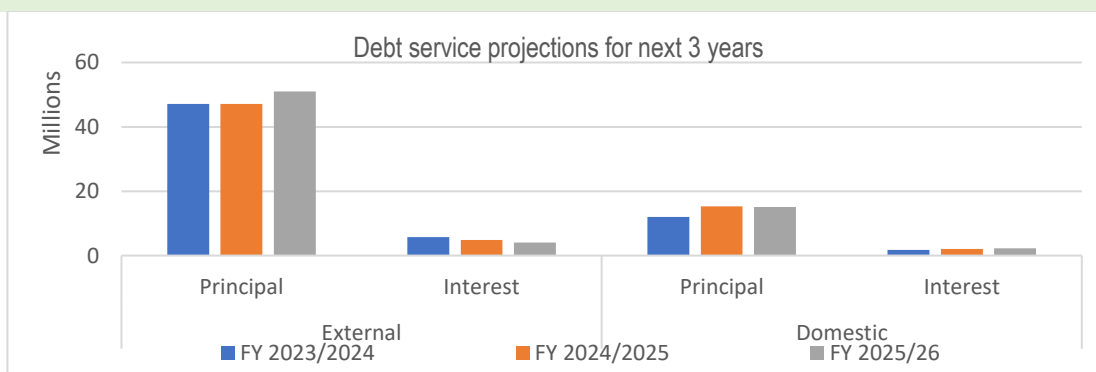
Source: MOF [Financial Framework Division (FFD)-Debt Unit]

**Debt Service**

Total debt service (expenditure), for the year ended 30<sup>th</sup> June 2023, is estimated at \$42.6m, comprising of external \$25.6m (60 percent of total debt service) and domestic \$17.0m (40 percent of total debt service). This is an increase from \$34.5m in June 2022, attributed to DSSI and exchange rate fluctuation. The total debt service is estimated as equivalent to 3.2 percent of GDP. There is no arrear on public debt payment at this stage, and Government is currently following up with PRC Embassy the prior request for debt relief.

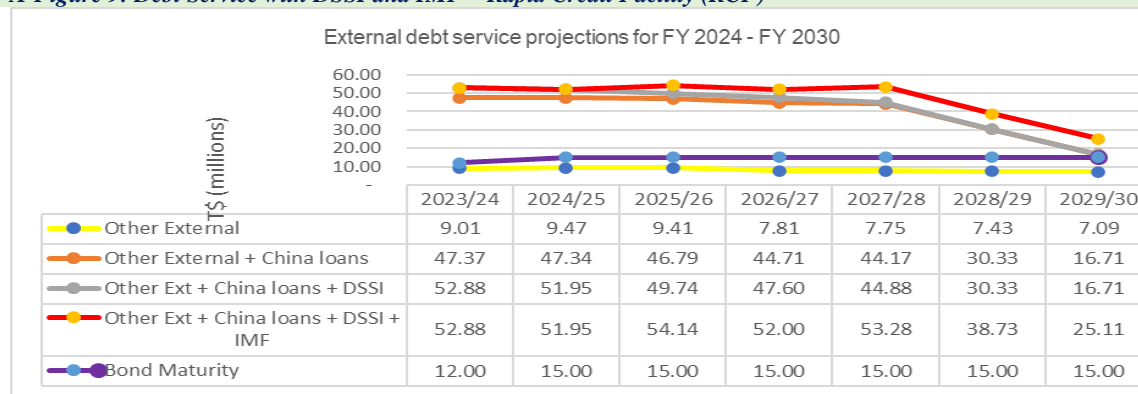
A-Figure 8 below reflects all the debt service forecasts for the maturity term of the China loans as will significantly affect the trend of debt service forecasts due to the principal repayment for Nuku’alofa CBD loan, which will commence in FY 2024. The domestic debt service is based on current bond maturity (principal) at an average term of 5 years and at a weighted average (interest) of 2.6 percent on the total bonds on issue (\$67.3m). Further domestic borrowing in the medium term will assist in refinancing of external debt through domestic bonds and to reduce exchange rate risk. Terms and conditions will subject to market preferences but expecting to issue new Government Bonds at lower interest rates.

**A-Figure 8: Debt Service projections for the next three (3) years**



Source: MOF [Financial Framework Division (FFD)-Debt Unit] and IMF staff estimates and calculations.

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



Source: MOF [Financial Framework Division (FFD)-Debt Unit] and IMF staff estimates and calculations.

The domestic debt service remains constant; however, the Government will have to consider when its economy back on board and catching up with its Revenue collection, then perhaps after 5-6 years the Government will start paying Government bonds as due.

### On-lent Loans

Total on-lent loans, as at 30<sup>th</sup> June 2023, due to Government from various public and other enterprises are estimated at \$47.1m<sup>13</sup> (3.5 percent of GDP and 11.2 percent of total external loans). The decrease in the outstanding on-lent debt between June 2022 and June 2023 is due to the TDB, Royco Building loan repayment and Cabinet approved to write off Sea Star Fishing Co. Ltd loan from the Government. Total debt service from on-lent loans on 30<sup>th</sup> June 2023 is estimated at \$0.82m.

**A-Table 4: On-lent Loans as at 30<sup>th</sup> June 2023**

Borrowers	June - 23 est. (\$m)
TDB	0.07
Talamahu Market Co.	1.24
TAMA	1.21
TBC	2.00
<b>Nuku'alofa CBD Projects</b>	
Royco Amalgamated Co. Ltd	1.86
MF Taumoepeau Ltd.	7.16
O.G. Sanft Ltd	10.25
City Assets Ltd	6.76
Tungi Colonnade Ltd	16.57
<b>TOTAL</b>	<b>47.12</b>

Source: MOF [Financial Framework Division (FFD)-Debt Unit]

### Government Guaranteed Loan

Total Government Guaranteed loan as of June 2023 is estimated at \$17.6m, estimated at 1.1 percent of GDP. These are for Roads Project (34 percent of total government-guaranteed loans), Cost Low Co. Ltd (32 percent of total government-guaranteed loans), Lulutai Airlines Ltd (19 percent of total government-guaranteed loans) and Royco Ports Ltd (15 percent of total government-guaranteed loans).

**A-Table 5: Government Guarantee Loans as at end of June 2023**

	Total Loan (\$m) 30 June 2023	Cumulative Repayments 30 June 2023	Disbursed Outstanding Debt 30 June 2023
City Engineering & Construction Ltd	4.1	3.6	0.5
Inter Pacific Limited	4.0	0.6	3.4
Island Dredging	3.9	1.8	2.1
Lulutai Airlines Ltd	3.5	0.2	3.3
Cost Low Company Ltd	5.6	0.0	5.6
Royco Ports Services Ltd	2.7	0.0	2.7
<b>TOTAL DUE</b>	<b>23.8</b>	<b>6.2</b>	<b>17.6</b>

Source: MOF [Financial Framework Division (FFD)-Debt Unit]

### Summary of Debt Ratios

A-Table 6 illustrates the actual debt sustainability indicators against the various targets. Net Present Value (NPV) of debt ratios against other macro data remain within the new indicators including exports and

<sup>13</sup> Includes Agriculture and Fisheries Loans to private sector, Gita Recovery Loan Fund and Micro-finance loans

remittances but are in breach of the indicator without remittances. NPV of external debt as a ratio of GDP and exports is below the target value. These estimates are based on the latest foreign exchange rates in March 2023 and do not account for any future fluctuations against the Pa'anga.

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

Indicators	(IMF) Tonga Target %	2022/23	2023/24	2024/25	2025/26
<b>NPV of external debt as:</b>		<b>Debt Indicator % should be &lt; Target %</b>			
% of GDP	40%	31%	25%	20%	16%
% of GDP & remittances	36%	22%	18%	15%	12%
% of exports	150%	1157%	973%	806%	643%
% of government revenues	250%	72%	57%	54%	46%
<b>Debt Service as:</b>					
% of exports	20%	112%	161%	170%	167%
% of exports & remittances	16%	7%	9%	11%	11%
% of revenues	20%	7%	9%	11%	12%

Source: MOF [Financial Framework Division (FFD)-Debt Unit]

### 8.3.3 Overview of Government Budget in the GFS Format<sup>14</sup>

The government budget is a crucial tool to achieve macroeconomic and fiscal objectives by planning expected revenue and expenditure for a given period. The effectiveness of government budgets in achieving these objectives can be assessed using government finance statistics (GFS), which measure revenue, expenditure, and debt levels. By monitoring the budget through GFS, policymakers can make informed decisions to achieve objectives while maintaining macroeconomic and financial stability, considering high inflation from the associated impacts from the ongoing conflict Russian and Ukraine war, and China reopening after the COVID-19 pandemic. FY 2023 estimated outturn, as referred to in *A-Table 7*, indicates that the fiscal balance improves to a surplus of \$5.1m from a deficit of \$22.7m of the approved estimate. The improvement in the fiscal balance is due to an increase in the domestic revenue by \$13.1m (4.6 percent), and a drop in total expenditure by \$42.6m. The decrease in expenditure is due mainly to the decrease in capital spending funding by donor on development projects.

<sup>14</sup> This section presents the Government budget in the Government Finance Statistics (GFS) format. The GFS classification is designed to reflect the macro-economic impact of the Government's financial transactions and to assess the sustainability of fiscal policy objectives. GFS records separately 'below the line', receipts and payments transactions including loan repayments, and how Government decides to finance deficit/shortfall in Government revenues. GFS system of classification records the inflows/outflows to Government of loan repayments under net lending/borrowing.



A-Table 7: Summary of Government Budget in the GFS format

	2021/22 Actual	Budget Estimate 2022/23	Estimate Outturn 2022/23	Budget Estimate 2023/24	2024/25 Estimate	2025/26 Estimate
<b>Revenue</b>	<b>562.0</b>	<b>695.4</b>	<b>612.6</b>	<b>741.9</b>	<b>699.6</b>	<b>714.0</b>
Tax and Non-tax Revenue	282.2	286.3	299.4	326.5	333.2	344.4
Grants	279.8	409.1	313.2	415.4	366.4	369.5
Current	52.1	81.5	58.2	50.5	38.5	38.5
Capital	227.7	327.6	255.0	364.9	327.9	331.1
<b>Expense</b>	<b>505.1</b>	<b>557.1</b>	<b>514.5</b>	<b>514.8</b>	<b>444.9</b>	<b>435.3</b>
<b>Gross Operating Balance</b>	<b>56.8</b>	<b>138.3</b>	<b>98.0</b>	<b>227.1</b>	<b>254.7</b>	<b>278.7</b>
Net Acquisition Of Nonfinancial Assets	67.2	161.0	92.9	201.8	233.0	244.0
<b>Net Lending/Borrowing Requirement</b>	<b>-10.3</b>	<b>-22.7</b>	<b>5.1</b>	<b>25.3</b>	<b>21.7</b>	<b>34.7</b>
<b>Net Acquisition Of Financial Assets And Liabilities (Financing)</b>	<b>10.3</b>	<b>22.7</b>	<b>(5.1)</b>	<b>(25.3)</b>	<b>(21.7)</b>	<b>(34.7)</b>
<b>Financial Assets</b>	<b>22.7</b>	<b>20.0</b>	<b>(6.8)</b>	<b>19.0</b>	<b>20.9</b>	<b>11.5</b>
Domestic	22.7	20.0	(6.8)	19.0	20.9	11.5
Currency and deposits	22.9	19.7	(7.6)	27.0	21.0	11.5
Loans	(0.2)	(0.7)	(0.2)	0.3	(0.3)	(0.3)
Shares and other equity	-	1.0	1.0	(8.2)	0.2	0.2
<b>Financial Liabilities</b>	<b>(12.4)</b>	<b>2.8</b>	<b>1.7</b>	<b>(44.3)</b>	<b>(42.5)</b>	<b>(46.2)</b>
Domestic	0.1	0.8	0.1	3.1	4.8	5.0
Loans	15.9	15.9	15.2	15.1	20.1	20.1
Repayments	15.8	15.1	15.1	12.0	15.3	15.1
Foreign	(12.5)	2.0	1.6	(47.3)	(47.3)	(51.2)
Loans	-	22.0	21.0	-	-	-
Repayments	12.5	20.0	19.4	47.3	47.3	51.2

Source: Ministry of Finance (MOF)

Looking ahead to FY 2024, the government's fiscal position is expected to be strengthened, with an estimated fiscal surplus of \$25.3m or 1.7 percent of GDP. This projection takes into account planned recovery and reconstruction efforts.

## REVENUE

In FY 2023, it is expected that the collection of domestic revenue will receive a boost due to the lifting of COVID-19 restrictions and lockdown measures, including the opening of borders. The estimated outcome for the fiscal year anticipates a 6.9 percent increase in tax revenue from the original budget estimates. This increase is mainly attributed to the rise in tax on Goods and Services by \$13.5m (7.6 percent), tax on income by \$2.99m (6.2 percent), and property tax (10.1 percent). This expected increase suggests that the contribution of tax revenue to GDP would rise from 21.4 percent to 22.3 percent. This growth will be fuelled by the revival of businesses and economic activities following the lifting of pandemic restrictions, lockdowns, and border openings.

On the other hand, non-tax revenue is expected to increase by 31 percent due to the recovery mode implication on economic activities from using of government services. This improvement is mainly on the collection of fees and licenses and entrepreneurial and property. Similarly, grant revenue is estimated to go up by 76 percent is due mainly for capital grants on development project.

In FY 2024, **Total revenue** is projected to improve by 21.1 percent (\$129.3m) from the estimated outturn of FY 2023, supported by the continuous effort to improve revenue process and administration, including the implementation of the cash register in retail businesses, and the recovery effort following the HTHH volcanic eruptions. The vast increase is due to an increase in grant by 32.6 percent (\$102.2m) then follows tax and non-tax revenue with 9.1 percent (\$27.1m) increase.

**A-Table 8: Revenue**

	2021/22 Actual	Budget Estimate 2022/23	Estimate Outturn 2022/23	Budget Estimate 2023/24	2024/25 Estimate	2025/26 Estimate
<b>Revenue</b>						
Taxes	257.9	253.3	270.7	283.0	297.3	306.7
Grants	279.8	409.1	313.2	415.4	366.4	369.5
Non-tax or Other revenue	24.3	33.0	28.7	43.4	35.8	37.7
<b>Total</b>	<b>562.0</b>	<b>695.4</b>	<b>612.6</b>	<b>741.9</b>	<b>699.6</b>	<b>714.0</b>

Source: Ministry of Finance (MOF)

**A-Table 9: Tax Revenue by main category**

	2021/22 Actual	Budget Estimate 2022/23	Estimate Outturn 2022/23	Budget Estimate 2023/24	2024/25 Estimate	2025/26 Estimate
<b>Taxes</b>						
Taxes on income, profits, and capital gains	55.6	48.2	51.1	55.4	56.5	58.6
Taxes on property	0.3	0.3	0.3	0.4	0.4	0.5
Taxes on goods and services	177.2	176.4	189.9	196.7	207.8	213.3
Taxes on international trade and transactions	24.9	28.5	29.4	30.6	32.6	34.4
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>257.9</b>	<b>253.3</b>	<b>270.7</b>	<b>283.0</b>	<b>297.3</b>	<b>306.7</b>

Source: Ministry of Finance (MOF)

**Taxes on Income and Profits:** Taxes on Income and Profits for FY 2024 is estimated at \$55.4m. It is increased by 8.3 percent (\$4.2m) and 15.0 percent (\$7.2m) respectively compared to the outturn and original estimate in FY 2023. The expansion is attributed to the increase in the corporate tax from small and large businesses, as well as the withholding tax from residents due to the recovery from COVID-19 and Volcano eruption. PAYE income tax is expected to hold up at \$20.3m.

**Tax on goods and services:** Tax on goods and services is estimated at \$196.7m in FY 2024, an increase of \$6.8m from the estimated outturn of \$189.9m in FY 2023, and higher by \$20.3m over the original estimate for FY 2023. The current collection from consumption taxes has exceeded expectation which is \$19.4m higher than the original estimate and \$16.9m higher compared to the previous year. These positive outturns were because of sustained remittances, the opening of borders, and the import goods due to the impact of COVID-19 and HTHH, which have all contributed to improve the economy. The outlook remains positive.

**A-Table 10: Tax on Goods and Services**

	2021/22 Actual	Budget Estimate 2022/23	Estimate Outturn 2022/23	Budget Estimate 2023/24	2024/25 Estimate	2025/26 Estimate
<b>Taxes on goods and services</b>						
General taxes on goods and services	109.1	106.6	126.0	121.4	131.0	134.3
Excise Tax	61.2	63.4	57.1	68.1	69.5	71.5
Taxes on use of goods and on permission to use goods or perform activities	6.8	6.4	6.7	7.2	7.3	7.5
<b>Total</b>	<b>177.2</b>	<b>176.4</b>	<b>189.9</b>	<b>196.7</b>	<b>207.8</b>	<b>213.3</b>

Source: Ministry of Finance (MOF)

**Tax on International Trade and Transaction:** Total Trade tax is estimated at \$30.6m in FY 2024, an increase by \$1.2m and \$2.1m respectively from the estimated outturn and its original estimate FY 2023. The positive forecast is due largely to expected improvement in collections from Business Import Duties and Forex levy.

**A-Table 11: Tax on International Trade**

	2021/22 Actual	Budget Estimate 2022/23	Estimate Outturn 2022/23	Budget Estimate 2023/24	2024/25 Estimate	2025/26 Estimate
<b>Taxes on international trade and transactions</b>						
Business Import Duties	20.3	22.9	23.1	23.9	25.8	27.4
Government Import Duties	0.1	0.4	0.4	0.5	0.5	0.5
Recoverable Charges	0.0	0.0	0.0	0.0	0.0	0.0
Forex Levy	4.5	4.2	5.9	6.2	6.4	6.5
Passenger Service Charge	0.0	1.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>24.9</b>	<b>28.5</b>	<b>29.4</b>	<b>30.6</b>	<b>32.6</b>	<b>34.4</b>

Source: Ministry of Finance (MOF)

**Grants:** Grant resources are received from bilateral agreements with foreign Governments and International organizations. The breakdown of grants by development partners will be covered in Section 6.3 and Annex III, Section 11.2. In the table below, grants are classified into current and capital grants. Capital grants are those related to projects, where Government allocates to finance development initiatives. Current grants reflect money (cash) received as budget support.

Total Grants is estimated at \$415.4m for FY 2024 for development project and climate change/resilient projects. The same rationale explains the huge increase in total grants by 32.6 percent, compared to the estimated outturn FY 2023. The large capital grants contributed to the overall decline in the total Grants projects for the outer years.

**A-Table 12: Grants**

	2021/22 Actual	Budget Estimate 2022/23	Estimate Outturn 2022/23	Budget Estimate 2023/24	2024/25 Estimate	2025/26 Estimate
<b>Grants</b>						
Current	52.1	81.5	58.2	50.5	38.5	38.5
Capital	227.7	327.6	255.0	364.9	327.9	331.1
<b>Total</b>	<b>279.8</b>	<b>409.1</b>	<b>313.2</b>	<b>415.4</b>	<b>366.4</b>	<b>369.5</b>

Source: Ministry of Finance (MOF)

**Other Revenue (Non-tax):** Other revenue for FY 2024 is estimated at \$43.4m, an increase of 51.2 percent from the estimated outturn FY 2023. These spike increases were due to the economic recovery activities from COVID-19 and HTHH, with revenue expecting from the NRBT, the estimates for the medium-term are considered quite optimistic.

**A-Table 13: Other Revenue (Non-tax)**

	2021/22 Actual	Budget Estimate 2022/23	Estimate Outturn 2022/23	Budget Estimate 2023/24	2024/25 Estimate	2025/26 Estimate
<b>Other revenue</b>						
Property income [GFS]	10.4	10.9	10.2	10.1	10.5	12.0
Sales of goods and services	11.3	16.2	16.0	17.8	20.0	20.7
Fines, penalties, and forfeits	0.7	1.2	0.9	0.9	0.9	0.9
Voluntary transfers other than grants	0.1	0.1	0.0	0.1	0.0	0.0
Miscellaneous and unidentified revenue	1.8	4.7	1.6	14.5	4.4	4.1
<b>Total</b>	<b>24.3</b>	<b>33.0</b>	<b>28.7</b>	<b>43.4</b>	<b>35.8</b>	<b>37.7</b>

Source: Ministry of Finance (MOF)

## EXPENSES

The government has been exercising caution with its expenses, addressing the budget deficit in the medium-term to prioritize economic development and recovery from the impact of COVID-19 and the HTHH volcano eruption and debt repayment. Despite facing significant pressure, the government has prioritized the compensation of employees and government operation expenses, which remain the highest areas of spending.

Overall, it's clear that the government is taking a responsible approach to managing public finances in the face of significant challenges. By prioritizing economic development and recovery while also being mindful of expenses, the government is working to ensure the long-term financial stability and prosperity of the country.

The total expense for FY 2024 is \$514.8m, representing a significant slight increase by 0.1 percent from the estimated outturn of FY 2023. This slight increase is primarily consolidating of expenses aimed at providing space for debt repayment. Looking ahead, the total expenses for the following two years are expected to decline further, with an estimated projection for FY 2026.

**A-Table 14: Expenses**

	2021/22 Actual	Budget Estimate 2022/23	Estimate Outturn 2022/23	Budget Estimate 2023/24	2024/25 Estimate	2025/26 Estimate
<b>Expense</b>						
Compensation of employees	189.3	169.3	162.8	173.4	173.3	171.1
Use of goods and services	221.5	309.8	249.0	239.5	189.6	183.0
Interest	6.3	7.9	7.8	7.5	6.9	6.3
Subsidies	1.0	1.3	1.3	1.3	1.3	1.3
Grants	34.6	12.8	22.6	36.9	18.8	18.7
Social benefits	25.8	25.5	31.5	26.5	25.4	25.4
Other expense	26.6	30.3	39.7	29.6	29.6	29.5
<b>Total</b>	<b>505.1</b>	<b>557.1</b>	<b>514.5</b>	<b>514.8</b>	<b>444.9</b>	<b>435.3</b>

Source: Ministry of Finance (MOF)

**Compensation of Employees:** “Compensation of Employees” remains the second-largest expense component. The estimated outturn for FY 2023 is \$162.8m, which is \$6.5m lower than its original estimate. The reduction in expenses was due to a delay in the recruitment processes to fill both vacant positions and resultant vacancies in respective MDAs.

**A-Table 15: Compensation of Employees**

	2021/22 Actual	Budget Estimate 2022/23	Estimate Outturn 2022/23	Budget Estimate 2023/24	2024/25 Estimate	2025/26 Estimate
<b>Compensation of employees</b>						
Wages and salaries	177.6	155.9	150.4	160.2	160.1	157.9
Social contributions	11.7	13.4	12.3	13.2	13.2	13.2
<b>Total</b>	<b>189.3</b>	<b>169.3</b>	<b>162.8</b>	<b>173.4</b>	<b>173.3</b>	<b>171.1</b>

Source: Ministry of Finance (MOF)

For FY 2024, the “Compensation of Employees” is estimated at \$173.4m and is reported to increase further by \$10.6m from the estimated outturn in FY 2023. The expected increase in next year’s wage bill is primarily because of new recruitment and annual rewards for staffs’ Performance Management System. The outer years is estimated at the same level.

The social contributions, which are calculated as 10 percent of the salary, follow the same trend as the compensation of employees. The Estimated Outturn for FY 2023 is estimated at \$12.3m. It is expected to rise to \$13.2m for the budget estimate FY 2024.

**Use of Goods and Services:** The use of goods and services remains the largest expense component, with an estimated cost of \$309.8m for FY 2023. This represents a decrease of \$60.8m to the FY 2023 outturn, reflecting the expenses related to planned activities that will be not utilized in this financial year.

However, the budget estimate for the use of goods and services for FY 2024 is \$239.5m, which is a decrease of \$9.5m from the estimated outturn for FY 2023. This decrease is mainly due to one-off expenses related to the operations of ministries and completed activities for COVID-19 and the HTHH volcano eruption.

**Interest Payments:** The interest rate payment on external loan remains the major component. The interest payments estimated for FY 2024 is \$7.5m, showing a decrease of \$0.4m from the FY 2023 budget estimate.

The estimated outturn FY 2023 is recorded \$7.8m, a fall by \$0.1m from the original estimate, representing that the loan payments are on schedule from the People's Republic of China. This has allowed more fiscal space for the Government because of economic recovery. The outer years will be slightly at the same level.

A-Table 16: Interest Payments

	2021/22 Actual	Budget Estimate 2022/23	Estimate Outturn 2022/23	Budget Estimate 2023/24	2024/25 Estimate	2025/26 Estimate
<b>Interest</b>						
To non-residents	4.2	6.0	6.0	5.8	4.8	4.0
To residents other than general government	2.0	1.9	1.7	1.8	2.0	2.3
<b>Total</b>	<b>6.3</b>	<b>7.9</b>	<b>7.8</b>	<b>7.5</b>	<b>6.9</b>	<b>6.3</b>

Source: Ministry of Finance (MOF)

**Subsidies:** Subsidies can be categorized into two principal components: subsidies to public corporations and subsidies to private corporations. Currently, the only active subsidies are those provided to private enterprises, such as assistance through development committees, which are estimated to remain at \$1.3m for FY 2024, the same as the previous year. These subsidies are expected to hold up in the outer years as well.

A-Table 17: Subsidies

	2021/22 Actual	Budget Estimate 2022/23	Estimate Outturn 2022/23	Budget Estimate 2023/24	2024/25 Estimate	2025/26 Estimate
<b>Subsidies</b>						
Subsidies to public corporations	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies to private enterprises	1.0	1.3	1.3	1.3	1.3	1.3
<b>Total</b>	<b>1.0</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>

Source: Ministry of Finance (MOF)

**Grants:** Grants represent contributions and subscriptions to regional and international organizations. The total subscriptions estimated for FY 2023 were \$12.8m, but it is now estimated to reach \$22.6m by the end of June 2023. The recent establishment of Tonga National University, and the allocation of grants to various social activities have led to a significant increase in funding. As a result, the budget estimate for FY 2024 has been revised to a generous amount of \$36.9m, with grants also being attributed to esteemed institutions such as Christ Universities and TNQB. Looking ahead, funding is projected to return to normal levels in the outer years.

**Social Benefits:** Payments for social benefits, such as prize-giving ceremonies and scholarships for students in both public and private schools, were affected. This resulted in an increase in spending from the budget estimate for FY 2023, which was \$25.5m, to an estimated outturn of \$31.5m. The estimate for FY 2024 assumes that expenses on social benefits will return to normal levels and will be maintained in the outer years.

**Other Expenses:** The total budget estimate for FY 2024 is \$29.6m, which represents a decrease of \$10.1m and \$0.7m from the estimated outturn and estimated budget for FY 2023. The increase in the estimated outturn from the estimated budget FY 2023 is mainly attributed to the increase in the cost of development projects, grants for sport activities and subsidies for electricity and transportation.

### Acquisition of Non-Financial Assets

The Government aims to fully implement capital investment in FY 2024. This is reflected in the increase in total acquisition of fixed assets for FY 2024 to 117.2 percent (or \$108.9m) from FY 2023 estimate outturn, to begin with upgrade of Queen Salote Wharf and the energy sector projects.

*A-Table 18: Acquisition of Non-Financial Assets*

	2021/22 Actual	Budget Estimate 2022/23	Estimate Outturn 2022/23	Budget Estimate 2023/24	2024/25 Estimate	2025/26 Estimate
<b>Fixed assets</b>						
Buildings and structures	36.9	78.2	48.0	136.2	186.4	195.4
Machinery and equipment	28.1	60.8	40.9	51.2	30.6	19.5
Other fixed assets	1.9	20.5	3.9	12.5	14.5	27.4
Land	0.3	1.5	0.2	1.9	1.6	1.6
<b>Total</b>	<b>67.2</b>	<b>161.0</b>	<b>92.9</b>	<b>201.8</b>	<b>233.0</b>	<b>244.0</b>

Source: Ministry of Finance (MOF)

## Fiscal Position

FY 2024 brings immense challenge for the fiscal position with high debt repayment, putting pressures on expenses in order to provide fiscal space for repayment and economic recovery at the same time expecting a 1.7 percent of GDP fiscal surplus. This also reflecting an enormous effort by the Government to control expense resulting in an increase from a fiscal surplus of \$5.1m (0.4 percent of GDP) from the estimated outturn FY 2023.

Government is set to repay the external loan of \$47.3m, with a domestic loan of \$12.0m. This debt repayment will continue in the medium term at the same level until it is completed.

### 8.3.4 Tax Exemptions

Tax exemptions are provisions in tax laws that allow certain groups or individuals to reduce or eliminate their tax liability. While tax exemptions were considered and granted for certain purposes, such as encouraging certain types of economic behaviour or supporting social programs, it has cost implications.

*A-Table 19: Tax Exemptions (\$m)*

	16/17	17/18	18/19	19/20	20/21	21/22	Total
Non-Fuel exemptions	34.6	24.7	37.9	43.0	30.6	26.5	197.3
Fuel related	21.9	27.8	24.2	29.4	26.9	22.8	153.0
<b>Total</b>	<b>56.4</b>	<b>52.5</b>	<b>62.1</b>	<b>72.4</b>	<b>57.5</b>	<b>49.3</b>	<b>350.3</b>

Source: MORC

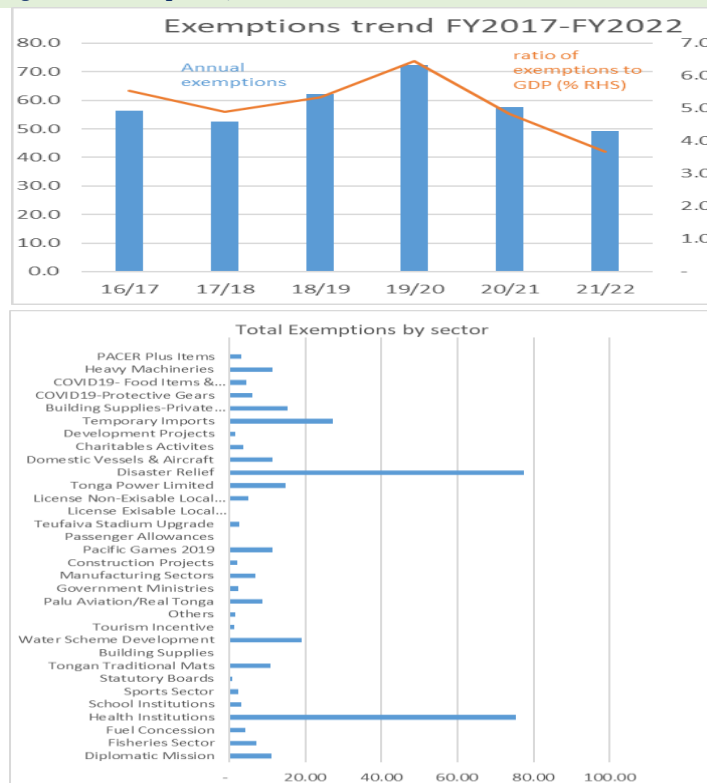
The cost of tax exemptions refers to the revenue lost by Government by granting exemption to certain group or individual from paying taxes. *A-Figure 10*, depicts the trend of exemptions between FY 2017- FY 2022. A significant total exemption, estimated at \$350.3m<sup>15</sup> for the period FY2017 and FY 2022, for certain entities and group of individuals that were exempted, for example: the health sector.

<sup>15</sup> Data Source: Ministry of Revenue and Customs (MORC)

The impact of tax exemptions depends on the specific exemption and purpose. In some cases, tax exemptions can have positive effects, such as providing charitable donations to school, such as sports equipment or an investment in certain industry such as tourism. On the other hand, tax exemptions can have negative impact, such as increasing inefficiency while reducing government revenue.

The majority of exemptions goes to the energy sector, approximately 44 percents of total tax exemptions. Government is planning to review the tax exemptions in FY 2024, picking up on the policy recommendations on similar reviews carried out by IMF in 2020.

**A-Figure 10: Exemptions, FY 2017 – FY 2022**



Source: MORC.

## 8.4 Monetary and Financial Outcomes

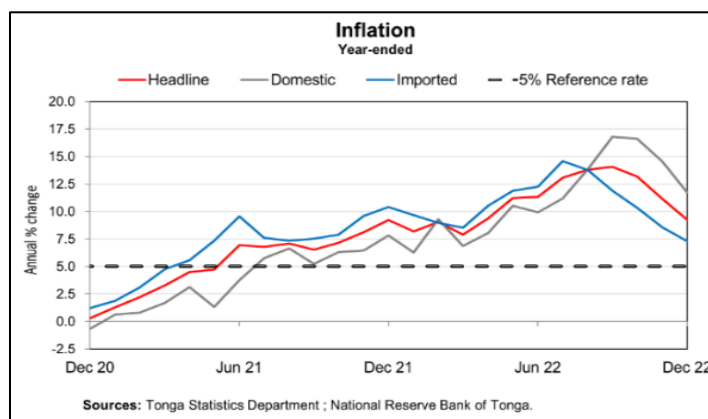
### 1. Inflation

In the first half of FY 2023, annual headline inflation reached a high of 14.0 percent in September 2022, above the NRBT's 5 percent reference rate, before easing to 9.2 percent in December 2022. The core inflation (excluding energy and imported food) rose by 8.7 percent, compared to 5.5 percent in the previous year. The average inflation over the year to December 2022 was 10.9 percent, compared to 5.7 percent in the previous year.

The average imported inflation was 9.3 percent at the end of 2021/2022 fiscal year, compared to 2.7 percent in the previous fiscal year. The lingering impact of COVID-19 restrictions and unfavourable developments on the energy and staple food markets from the Ukraine war continued to exacerbate imported inflation. The persistent imported inflation was also fuelled by higher prices of construction materials and goods for personal care. Imported inflation surged by 12.2 percent over the year ended June 2022, hitting its highest point in July 2022 at 14.5 percent before slowing down to 7.3 percent in December 2022. In July 2022, the Government offered subsidy on energy prices (fuels and electricity) to assist households combat the surging inflation which also mitigated pressure on the imported inflation. The slowdown in the imported inflation reflects the gradual improvements in the global production and supply chains, as more COVID-19 restrictions are removed for most countries.

Domestic prices surged by 10.0 percent at the end of 2021/2022 fiscal year, compounded mainly by higher prices of local food items, electricity, takeaway food, and kava. The increased local food prices were mostly attributed to root crops, vegetables, and seafoods, further portraying the extended effects of the HTHH volcanic eruption on the primary sector. The higher electricity tariffs reflect the pass-through of the soaring global oil prices. At the end of 2021/2022 financial year, domestic inflation averaged at 7.4percent, which is substantially higher than -0.1percent in 2020/2021. Domestic inflation outpaced imported inflation in August 2022 with a 13.9percent rise before peaking in September 2022 at 16.7percent. The main contributors to the new peak were local food items, electricity, local transport services, takeaway food, construction labor cost, and doctor visit fees. However, domestic inflation slowed down to 11.7percent in December 2022 as the local food supply gradually recovered and energy prices fell on global recessionary concerns.

A-Figure 11: Inflation



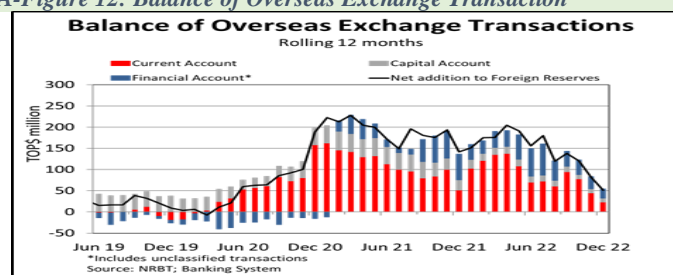
Source: NRBT

The Reserve Bank is expecting inflation to moderate and ease below the 5percent reference rate during 2023, but the risks remain tilted to the downside. The expected inflation decline is essentially supported by the improving prices of food commodities given the improvements in the global productions and supply chains as more COVID-19 restrictions are scrapped, and the gradual recovery in the domestic agricultural sector. On the other hand, China's reopening poses a risk to the outlook which it is expected to significantly boost economic activities and consumption, hence supporting oil prices. Meanwhile, Tonga's high susceptibility to natural disasters and the current tropical cyclone season in the Pacific regions (especially in the major trading countries) also pose a threat to the outlook.

## 2. Balance of Payments (BOP) Performance Indicators (*Overseas Exchange Transactions*)

The balance of the Overseas Exchange Transactions (OET) recorded an overall surplus of \$51.4m over the year to December 2022 compared to a significant surplus of \$141.9m over the year ended December 2021. The lower net inflows in all the accounts contributed to this trend, particularly the current account.

A-Figure 12: Balance of Overseas Exchange Transaction



Source: NRBT

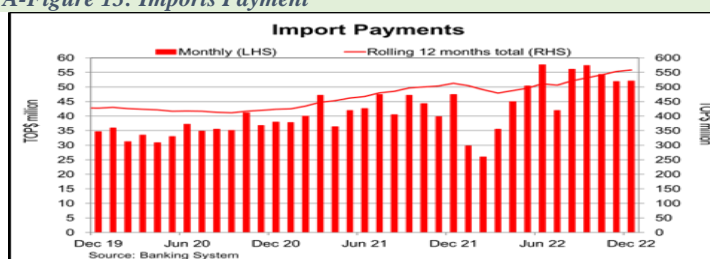
### **Current account:** The current account

surplus declined over the year ending December 2022 by 55.6 percent (\$28.5m) from the \$51.3m surplus recorded in the previous year. The lower surplus balance was largely attributed to higher deficits in the merchandise trade account and the service account.



**Import payments** increased over the year to December 2022 by 8.9 percent (\$45.6m), reflecting large payments for imports of oil, wholesale & retail trade, and construction materials. This coincided with the higher global oil and commodity prices during the year. The majority of the payments were paid in US Dollars, which accounted to almost 49percent of the total imports.

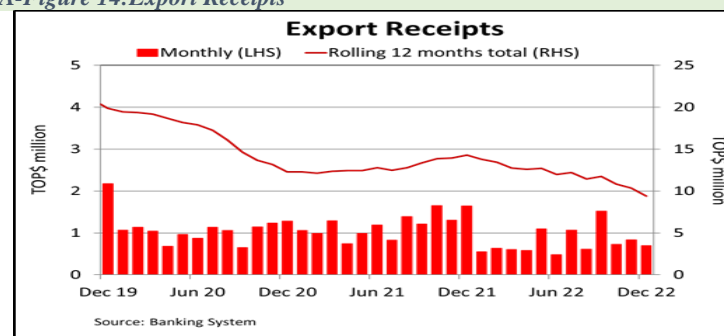
A-Figure 13: Imports Payment



Source: NRBT

**Export receipts** decreased over the year to December 2022 by 34.2 percent (\$4.9m) to \$9.4m as proceeds from all export categories declined over the year. Receipts from agricultural exports accounted for 64.0 percent of the total proceeds, while fisheries/marines’ exports accounted for only 24.7 percent and the remaining 11.3 percent are from various other exports. The volume of agricultural exports fell over the year by 37.3 percent (\$4,185 tonnes), primarily driven by the decline in yams, cassava, taro and squash. This coincides with the lower agricultural export receipts, which fell by 18.1 percent (\$1.3m) over the year. The volume of marine exports also decreased over the year, supporting the 57.3 percent (\$3.1m) decline in marine export proceeds.

A-Figure 14: Export Receipts

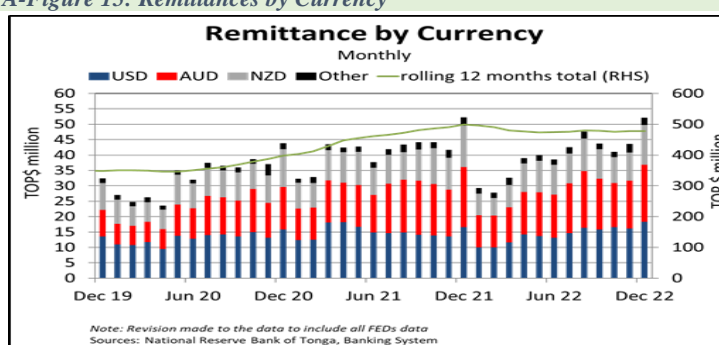


Source: NRBT

The **transfer account** surplus of \$631.1m for the year ending December 2022 is an increase from the \$569.8m recorded in December 2021. This was due mostly to higher official transfer receipts of budget support and donor funds to support Tonga’s recovery from the HTHH disaster and, combatting COVID-19.

**Remittance** receipts declined over the year to December 2022 by 4.3 percent (\$21.5m) to \$477.5m. The COVID-19-related lockdowns and the impact of the HTHH eruption on electronic transfers affected remittance receipts in the first half of the year. The re-opening of the border seems to have diverted part of remittance flows to travel receipts in the second half of the year as the overseas diaspora travelled back home. The high cost of living in our source remitting countries may have also contributed to the slowdown in remittances. Remittances as a share of GDP is around 38.9 percent as at December 2022, a decrease from 42.8 percent in the previous year. Foreign Exchange Dealers (FEDs) remained as the preferred channel for remittances, through which 89.1 percent of total remittances are transferred. Majority of remittance receipts are denominated in Australian Dollars, representing 36.4 percent of the total remittance receipts. US dollars followed with 35.7 percent and New Zealand Dollars with a 22.9 percent share of total remittance receipts.

A-Figure 15: Remittances by Currency



Source: NRBT

The **services account** deteriorated over the year, recording an \$87.7m deficit in December 2022 compared to the \$48.6m deficit in December 2021. This reflects large payments for travel, professional & management,

maintenance & repair service and insurance. Travel receipts however, increased over the year by 154.9 percent (\$34.2m), supported by the reopening of the border in August 2022. This coupled with an increase in receipts from other services by 7.8 percent (\$5.6m), mostly receipts from professional & management, insurance premiums and construction services.

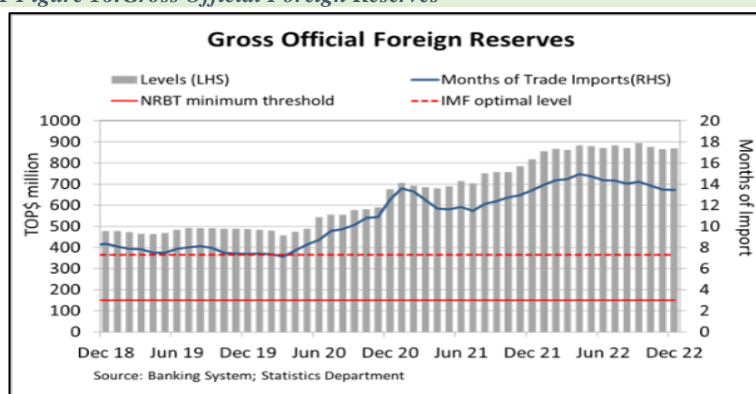
The **capital account** recorded a lower surplus of \$9.8m compared to the \$23.9m surplus recorded in December 2021. This stemmed from the decline in official receipts following the completion of the reconstruction projects of houses that were destroyed by tropical cyclones Gita and Harold. This is in addition to the increase in capital account payments as the Government returned unutilised project funds, as well as private investment projects abroad.

Meanwhile, the **financial account** surplus narrowed by 71.7 percent (\$47.9m) from the \$66.7m surplus in the previous year. This was mostly due to the lower inflow of other investments mostly for interbank transfers.

### 3. Foreign Reserves

Gross official foreign reserves increased significantly over the year to December 2022 by \$51.4m to a record high of \$868.9m, equivalent to 13.4 months of imports of both goods and services. This is well above the minimum threshold of 3 months of imports cover and the optimal level of 7.3 months projected by the IMF. The annual growth stemmed from higher receipts of budget support, official grants,

A-Figure 16: Gross Official Foreign Reserves



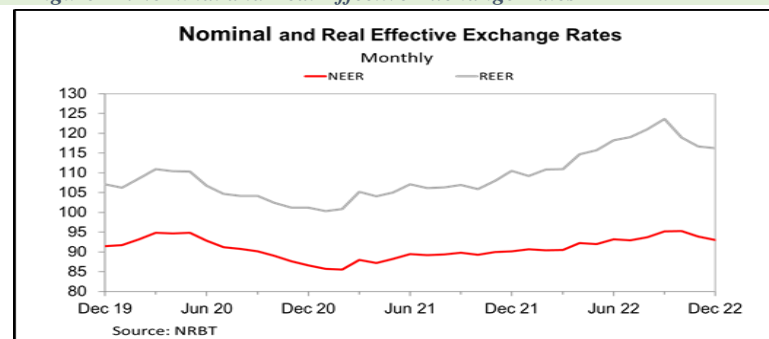
Source: NRBT

and capital inflows. Foreign reserves are held mostly in USD, AUD, and NZD. Foreign reserves are projected to remain comfortable at around 11 months of imports cover by end of 2023, sustained by large inflows of donor funds for development projects in the near term. However, budget support and remittance receipts are expected to slow down, and import outflows are expected to continue to increase in line with the domestic economic recovery.

### 4. Exchange Rates

The Tongan pa'anga strengthened against most of its major trading partners' currencies over the year to December 2022, except for the US Dollar. The nominal effective exchange rate index (NEER) increased over the year by 3.2 percent. This indicates an overall benefit for importers and other payments in foreign currencies.

A-Figure 17: Nominal and Real Effective Exchange Rates



Source: NRBT

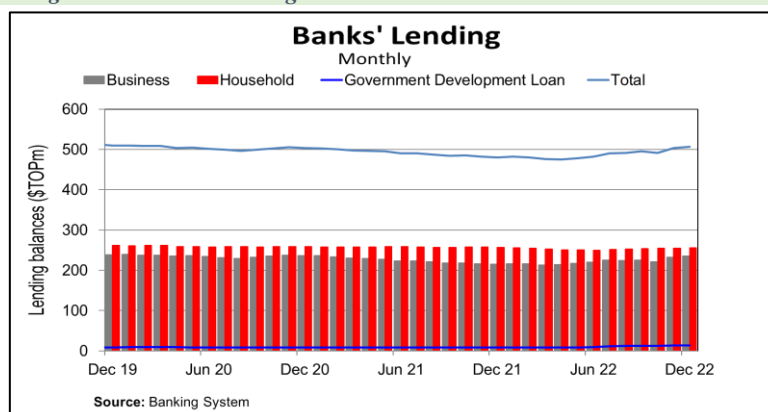
However, the higher NEER and Tonga's higher inflation relative to its major trading partners caused the real effective exchange rate (REER) index to also increase over the year by 5.1 percent, indicating a loss in Tonga's global trade competitiveness.

## 5. Lending Balance

Credit growth improved in line with the recovery in the Tongan economy. The total bank lending grew by \$21.3m (4.5 percent) to \$493.3m in the year ended December 2022, compared to a negative growth of \$23.4m (-4.7 percent) last year. Business loans increased by \$20.3m (9.4 percent), mainly for businesses within the distribution, professional & other services and construction sectors. Household

loans however, declined by \$1.1m (0.5 percent) due mainly to lower housing loans. The NRBT anticipates a 9.1 percent (\$42m) credit growth over the year to September 2023 as the economy recovers.

A-Figure 18: Banks' Lending



Source: NRBT

## 6. Deposit Balance

The total banks' deposits increased over the year to

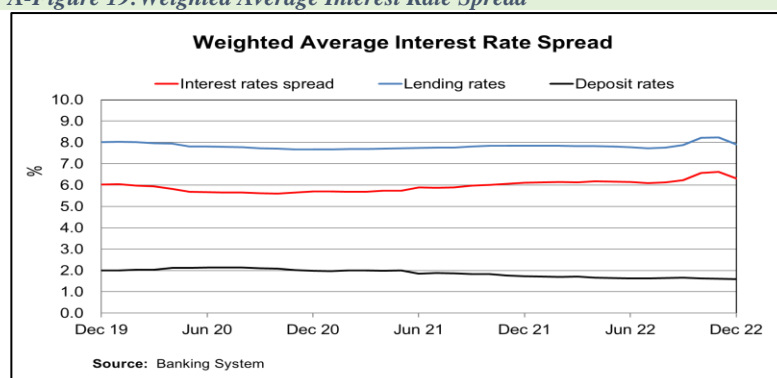
December 2022 by \$47.9m (5.8 percent) to \$874.9m. Both demand and saving deposits rose by \$51.6m (14.3 percent) and \$9.3m (5.4 percent) respectively, underpinned by higher deposits from the Government, private businesses, retirement funds and the non-profit organisations (churches). On the other hand, time deposits fell by \$13.0m (4.5 percent), in

line with lower time deposit rates and drawdowns of deposits from the public enterprises and the Government.

## 7. Interest Rates

The weighted average interest rate spread widened over the year to December 2022, by 19.89 basis points to 6.31 percent. The weighted average lending rate rose by 7.02 basis points driven by higher lending rates offered to businesses within the mining & quarrying, construction and fisheries sectors, and households for vehicle and housing loans. However, the weighted average deposit rate declined by 12.87 percent basis points as both term and savings deposit rates decreased.

A-Figure 19: Weighted Average Interest Rate Spread

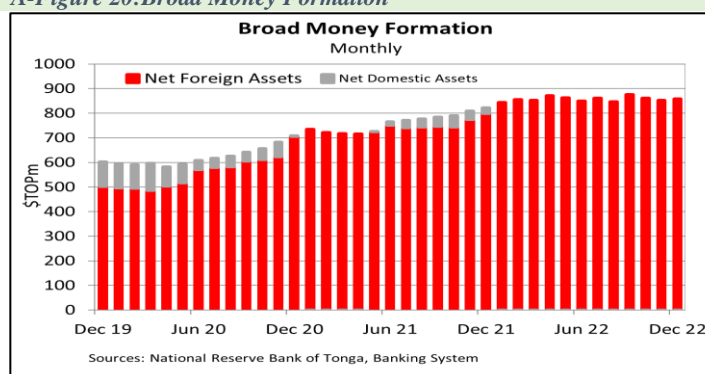


Source: NRBT

## 8. Broad Money

Broad money increased over the year to December 2022, by \$29.7m (3.6 percent) to \$851.2m. The receipts of budget support and donor funds to support Tonga's recovery from COVID-19 and HTHH reconstructions pushed foreign reserves and net foreign assets higher. On the other hand, the lower net domestic assets were attributed to higher government deposits from the receipts of these grants.

A-Figure 20: Broad Money Formation



Source: NRBT

Liquidity in the banking system rose by \$34.3m (5.9 percent) to \$613.1m over the year to December 2022. Both the Exchange Settlement Accounts (ESA) and Statutory Reserve Deposits increased by \$35.0m (9.5 percent) and \$5.9m (7.7 percent) respectively, and outweighed the \$6.7m (5.0 percent) decline in the currency in circulation. The higher ESA and SRD balances reflected net sales of foreign exchange from the commercial banks to the Reserve Bank and the growth in deposits.

## 9. Banking System Performance

The stability of the banking system has been preserved, supported by the banks' strong capital position and excess liquidity. Banks' asset quality has reflected the impacts of COVID-19 and the HTHH disaster on borrowers. However, banks continue to manage non-performing loans prudently and ensuring adequate provisions are in place.

Banks' balance sheets continued to grow with total assets increasing over the year to December 2022 by 5.5 percent (\$61.6m) to \$1,185.7m. This resulted from a 9.6 percent (\$35.3m) rise in banks' Exchange Settlement Account (ESA) balances held at the Reserve Bank, reflecting the ongoing influx of funds to the Government accounts (representing around 30 percent of excess liquidity) and accumulation of other deposits over the year. Total loans also increased over the year. Total liabilities grew over the year to December by 5.7 percent (\$52.3m), largely driven by the rise in the deposit balances.

Banks continue to be profitable, recording a Return on Assets (ROA) of 2.2 percent and a Return on Equity (ROE) of 9.1 percent in the year ended December 2022. The weakening of asset quality triggered the increase of loan loss provisions, while interest income declined, reflecting the ongoing weak credit growth and the take up of relief loan packages with delayed interest payments. Non-interest income, mostly from foreign exchange revaluations, however, increased.

The banking system's capital position remained sound in December 2022, with the risk-weighted capital ratio (RWCR) well above the statutory minimum requirement of 15 percent. The RWCR improved to 32.3 percent at the end of December 2022 from 31.7 percent in December 2021. This was mainly due to an increase in eligible capital as banks' retained earnings grew from the year's profits.

Total Non-Performing Loans increased to 5.9 percent of total loans compared to 3.6 percent a year ago. The withdrawal of loan relief packages, coupled with the slow economic recovery impacting borrowers' repayment capacity have led to higher non-performing loans from both businesses and households. The banks' provisions against loan losses also increased over the year by \$4.5m to \$27.9m.

The anticipated economic recovery supporting the positive credit growth outlook will improve net interest income and non-interest income over the coming year. Any further deterioration in asset quality will continue to affect banks' profitability and capital position. Continued enhanced supervision and monitoring of the impact of economic developments on the banks therefore remains crucial.

## 10. Monetary Policy Stance

Given the current level of foreign reserves, and financial stability maintained to date, the National Reserve Bank of Tonga will focus on supporting the Government's fiscal policy by reducing inflation and maintaining financial stability.

## 8.5 Tonga Selected Indicators

A-Table 20: Tonga Selected Indicators, FY 2015-2022

### Tonga Selected Indicators, 2014/15 - 2021/22

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20p	2020/21	2021/22f
	(Annual Percentage change)							
<b>Output and prices 1/</b>								
Real GDP	1.2	6.6	3.3	0.3	0.7	0.7	-2.7	-0.4
Consumer prices (period average)	0.1	-0.6	7.3	5.3	4.0	0.2	1.4	8.5
<b>Money and credit (end-period) 2/</b>								
Broad money (M2) % growth	2.4	12.6	11.3	10.6	1.8	1.1	19.3	14.1
Domestic credit	11.7	18.2	13.3	-2.2	2.8	3.2	-23.2	-7.0
Private sector credit % growth	8.9	19.8	22.8	7.0	8.6	3.0	-1.4	-1.3
<b>Balance of payments (OET Basis)</b>								
Exports, f.o.b.	16	19.1	23.7	20.9	19.3	17.9	12.8	12
<i>of which: Squash exports</i>	1.8	3.7	4.3	5.5	3.6	5.4	1.5	-
Imports, f.o.b.	305.9	320.3	356.4	408.8	443.7	417.2	467.3	511.1
Services (net)	-6.0	17.3	26.9	32.1	32.2	18.8	-25.1	-79.0
Income (net)	13.7	5.6	-15.9	-7.9	8.9	5.6	22.0	30.5
Services and Income (net)	7.7	22.9	11.0	24.2	41.1	24.4	-3.1	-48.5
Transfers (net)	215.6	301.0	365.0	382.5	381.4	428.2	570.9	616.6
<i>of which: Private transfer receipts</i>	221.1	279.9	334.1	358.3	358.7	370.6	479.3	504.3
Current account balance	-66.7	32.2	21.0	18.8	-2.0	53.3	113.2	69.0
<i>(In percent of GDP)</i>	-7.9%	3.5%	2.1%	1.8%	-0.2%	4.7%	10.6%	6.0%
Overall balance	41.9	66.8	53	60.9	15.6	59.5	171.4	155.9
<b>Gross international reserves (end-period)</b>								
In millions of pa'anga	289.7	354.9	407.9	468.7	484.3	543.8	715.2	871.2
In months of imports cover <i>(trade estimate)</i>	6.5	7.1	7.5	8.0	7.9	9.2	11.8	14.4
<b>Total debt 3/</b>								
Total debt/GDP (%)	49.8	47.7	44.2	44.2	40.9	43.3	47.4	42.8
<b>Exchange rate (end-period)</b>								
T\$ per US\$ (end-period)	2.11	2.21	2.19	2.27	2.28	2.29	2.25	3.25

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

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

3/ Sources for Total Debt : MOF

### Annual Average Consumer Price Index for 2018 - 2022, Base Period (September 2018 = 100)

	All Items	Food and non-alcoholic beverages	Alcohol and tobacco	Clothing and footwear	Housing, water, electricity and gas	Furnishing, household equipment and household maintenance	Health	Transportation	Communications	Recreation and culture	Education	Restaurants and hotels	Misc. goods and services	Imported Items	Local Items
Weight.	100.0	39.8	11.6	2.1	10.8	3.2	0.3	16.4	5.2	1.1	2.2	3.1	4.2	55.1	44.9
2018	98.9	99.2	93.3	99.0	99.8	99.4	101.1	98.5	106.6	100.0	100.0	100.3	100.0	98.6	99.3
2019	100.1	100.9	97.7	102.6	100.2	101.0	100.0	96.9	100.3	103.6	104.2	108.2	99.5	99.6	100.7
2020	99.7	102.8	98.0	109.2	95.0	102.4	100.0	92.1	100.3	103.6	104.8	108.2	100.5	100.7	98.6
2021	105.4	110.2	99.9	113.7	100.7	104.5	100.0	101.1	99.9	103.6	104.8	109.5	104.2	107.6	102.6
2022	116.9	121.1	101.7	115.0	128.2	109.0	107.5	120.6	100.5	103.6	104.8	118.6	112.0	119.1	114.2

Source: Statistics Department

### Annual Percentage Change in CPI for December month 2018 - 2022

	All Items	Food and non-alcoholic beverages	Alcohol and tobacco and kava	Clothing and footwear	Housing, water, electricity and gas	Furnishing, household equipment and household maintenance	Health	Transportation	Communications	Recreation and culture	Education	Restaurants and hotels	Misc. goods and services	Imported Items	Local Items
Weight	100.0	39.8	11.6	2.1	10.8	3.2	0.3	16.4	5.2	1.1	2.2	3.1	4.2	55.1	44.9
2018	4.8	6.8	15.5	4.4	2.2	0.5	0.7	4.1	-10.4	0.1	-	1.3	1.2	1.6	3.2
2019	1.2	2.5	-4.5	4.0	0.3	1.0	0.0	1.2	1.6	3.6	4.2	6.8	-1.2	1.1	0.0
2020	0.3	3.8	5.4	8.0	-6.9	3.9	0.0	-8.2	-1.7	0.0	0.6	0.0	1.7	0.6	-0.3
2021	9.1	10.8	-0.3	0.9	17.1	1.9	0.0	18.2	0.0	0.0	0.0	1.2	6.0	5.8	3.5
2022	9.2	5.6	3.3	1.9	28.8	4.2	19.7	14.2	2.5	0.0	0.0	16.2	7.0	4.1	5.1

Source: Statistics Department

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



## Imports by Main HS Section, 2014/15 - 2021/22

HS Code SECTION ITEM	2014/15		2015/16		2016/17		2017/18		2018/19		2019/20		2020/21		2021/22	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
1.Live Animals/Animal Products	46,987	11	48,347	10	53,023	10	60,542	11	55,638	10	52,617	10	77,014	13	72,291	13
2.Vegetable Products	11,341	3	14,588	3	15,142	3	17,630	3	18,513	3	17,283	3	24,285	4	19,043	3
3. Prepared Foodstuff, Beverages & Tobacco	55,893	13	68,575	14	81,580	16	74,511	14	61,244	11	66,737	12	91,749	16	77,764	14
4. Mineral Products	88,805	21	83,105	17	77,515	15	111,259	21	108,850	19	109,167	20	84,648	15	107,425	20
5. Products of the Chemical or Allied	15,701	4	20,121	4	18,599	4	20,956	4	22,299	4	21,863	4	29,860	5	30,849	6
6. Wood and Articles of Wood	13,763	3	16,433	3	20,128	4	20,361	4	20,584	4	18,445	3	23,852	4	14,303	3
7. Pulp of Wood and Other Fibrous Cellulosic Material	10,944	3	12,276	3	9,076	2	9,322	2	13,374	2	8,849	2	9,047	2	10,126	2
8. Base Metals & Articles of Base Metal	20,203	5	26,629	6	38,251	8	29,216	5	35,659	6	28,754	5	31,336	5	28,318	5
9. Machinery and Mechanical Appliance	74,142	17	83,461	17	76,997	15	78,780	15	106,734	19	85,352	16	95,751	16	78,120	14
10. Miscellaneous Manufactured Articles	10,952	3	13,515	3	15,204	3	17,151	3	15,068	3	11,709	2	14,393	2	13,962	3
11. Vehicle, Aircraft, Vessel & Associated, Transport Equipment	40,430	9	50,360	11	46,989	9	46,906	9	56,303	10	81,286	15	47,846	8	44,810	8
12. Works of Art, Collectors Pieces	17	-	37	-	6	-	4	-	16	-	7	0	50	0	21	0
13. Other Imports	39,681	9	40,895	9	56,017	11	47,229	9	49,495	9	40,557	7	51,033	9	51,619	9
<b>TOTAL</b>	<b>428,859</b>	<b>100</b>	<b>478,340</b>	<b>100</b>	<b>508,527</b>	<b>100</b>	<b>533,868</b>	<b>100</b>	<b>563,777</b>	<b>100</b>	<b>542,626</b>	<b>100</b>	<b>580,864</b>	<b>100</b>	<b>548,651</b>	<b>100</b>

Source: Statistics Department

## Imports by Country of Origin, 2014/15 - 2021/22

COUNTRY	2014/15		2015/16		2016/17		2017/18		2018/19		2019/20		2020/21		2021/22	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
New Zealand	122,470	29	140,074	29	155,900	31	156,775	29	151,889	27	155,149	29	174,916	30	146,285	27
Australia	24,312	6	31,277	7	38,716	8	35,923	7	40,127	7	36,641	7	56,015	10	42,298	8
USA	46,570	11	40,074	8	52,201	10	49,116	9	65,288	12	70,082	13	57,034	10	59,708	11
China	36,049	8	66,129	14	40,242	8	51,932	10	49,599	9	43,771	8	56,390	10	73,134	13
Indonesia	6,431	1	8,174	2	8,185	2	8,929	2	8,063	1	8,198	2	13,742	2	11,639	2
Fiji	34,921	8	50,024	10	40,126	8	44,481	8	40,227	7	41,521	8	49,591	9	42,381	8
Japan	35,709	8	32,339	7	52,818	10	38,824	7	55,417	10	42,640	8	34,902	6	28,871	5
Singapore	63,965	15	54,531	11	77,459	15	82,307	15	98,667	18	101,557	19	71,713	12	95,561	17
Others	58,432	14	55,718	12	42,880	8	65,581	12	54,500	10	43,067	8	66,561	11	48,774	9
<b>TOTAL</b>	<b>428,859</b>	<b>100</b>	<b>478,340</b>	<b>100</b>	<b>508,527</b>	<b>100</b>	<b>533,868</b>	<b>100</b>	<b>563,777</b>	<b>100</b>	<b>542,626</b>	<b>100</b>	<b>580,864</b>	<b>100</b>	<b>548,651</b>	<b>100</b>

Source: Statistics Department

## Tonga Real Sector Development, 2014/15 - 2020/21

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21p
<b>Nominal GDP</b>							
In pa'anga m	849.1	932.6	1017.7	1072.6	1163.3	1120.0	1068.9
In US\$ m	436.7	418.4	460.0	488.7	511.6	485.1	464.7
GDP per capita (US\$)	4295.3	4136.5	4571.9	4882.7	5139.0	4898.7	4296.3
Population	101,671	101,138	100,607	100,080	99,555	99,034	100,179
	<b>Annual Percentage Change</b>						
GDP (2016/17 prices)	1.2	6.6	3.3	0.2	0.7	0.5	-2.7
of which:							
Agriculture, forestry, and fisheries	-1.7	-1.3	-2.5	0.4	3.6	3.2	0.1
Manufacturing	3.0	7.4	1.5	-1.8	-4.8	3.7	-11.4
Construction	-5.1	22.8	18.0	-32.4	16.2	-13.9	16.6
Accommodation and food service activities	7.3	16.6	8.6	7.5	-3.3	-27.4	-68.1
Transport and storage	7.6	-2.1	19.6	1.8	2.2	-10.4	-10.5
Financial and insurance activities	-8.3	8.2	-4.3	4.5	0.1	5.0	-5.0
Public administration and defence	1.7	0.6	-1.5	2.8	4.0	1.8	1.9
Education (Government & Non-Government)	-0.2	0.1	-0.1	0.0	2.6	3.6	3.6
Human health & socialwork activities (Government & Non-Government)	-4.3	21.0	8.6	5.4	-3.2	8.3	-2.0
	<b>Percentage of GDP</b>						
GDP (by sector; current prices)							
of which:							
Agriculture, forestry, and fisheries	9.9	8.2	10.4	7.1	24.7	-12.7	-12.5
Manufacturing	2.9	10.0	7.7	2.6	-3.3	4.4	-11.7
Construction	5.6	21.1	19.2	-9.2	18.4	-14.7	17.0
Accommodation and food service activities	7.8	16.0	16.5	13.0	0.6	-27.1	-67.9
Transport and storage	15.8	-5.1	16.8	0.1	1.4	-9.1	-23.1
Financial and insurance activities	-8.2	6.8	2.9	7.6	13.3	3.1	-4.0
Public administration and defence	16.4	8.5	-2.2	-2.5	9.4	1.6	9.0
Education (Government & Non-Government)	7.4	3.7	7.1	2.5	3.2	4.2	5.3
Human health & socialwork activities (Government & Non-Government)	7.2	28.8	7.9	0.6	0.2	9.1	4.0
Consumer prices (period average)							
All items	0.1	-0.6	7.3	4.3	4.0	0.2	1.4
Imported component	0.2	-5.4	8.1	7.8	2.7	1.4	2.7
Domestic component	-0.1	6.2	6.3	0	5.5	-1.7	-0.1
p - provisional estimates							

Source - Statistics Department

## Tonga Balance of Payment: FY 2015 – FY 2022

<i>(T\$m, unless otherwise indicated)</i>	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22p
<b>Balance of Trade</b>	<b>-289.9</b>	<b>-301.2</b>	<b>-332.7</b>	<b>-387.9</b>	<b>-424.4</b>	<b>-399.3</b>	<b>-454.5</b>	<b>-499.1</b>
Exports, f.o.b.	16.0	19.1	23.7	20.9	19.3	17.9	12.8	12.0
<i>of which: Squash exports</i>	1.8	3.7	4.3	5.5	3.6	5.4	1.5	-
Imports, f.o.b.	305.9	320.3	356.4	408.8	443.7	417.2	467.3	511.1
<b>Services (net)</b>	<b>-6.2</b>	<b>17.3</b>	<b>27.0</b>	<b>32.3</b>	<b>32.2</b>	<b>18.8</b>	<b>-25.2</b>	<b>-79.0</b>
Receipts	100.4	139.1	169.7	199.0	204.3	184.0	88.3	98.5
<i>of which: Tourism receipts</i>	63	84.1	108.8	111.2	129.4	108.1	20.7	-
Payments	106.6	121.8	142.7	166.7	172.1	165.2	113.5	177.5
<b>Income (net)</b>	<b>13.6</b>	<b>5.6</b>	<b>-16.1</b>	<b>-7.7</b>	<b>8.7</b>	<b>5.6</b>	<b>22.0</b>	<b>30.5</b>
Receipts	26.2	22.2	17.7	24	25.8	25.8	44.2	47.9
Payments	12.6	16.6	33.8	31.7	17.1	20.2	22.2	17.4
<b>Current Transfers (net)</b>	<b>215.5</b>	<b>301.0</b>	<b>364.9</b>	<b>382.6</b>	<b>381.3</b>	<b>428.2</b>	<b>570.9</b>	<b>616.7</b>
Official transfers (net)	41.0	78.9	85.4	82.3	87.8	123.8	162.7	175.0
Private transfers (net)	174.5	222.1	279.5	300.3	293.5	304.4	408.2	441.7
Official transfer receipts	43.1	82.6	87.9	91.1	91.5	128.2	166.8	178.9
Official transfer payments	2.1	3.7	2.5	8.8	3.7	4.4	4.1	3.9
Private transfer receipts	221.1	279.9	334	358.4	359.3	370.6	479.3	504.3
Private transfer payments	46.6	57.8	54.5	58.1	65.8	66.2	71.1	62.6
<b>Current account balance</b>	<b>-67.0</b>	<b>22.7</b>	<b>43.1</b>	<b>19.2</b>	<b>-2.2</b>	<b>53.3</b>	<b>113.2</b>	<b>69.1</b>
(Percent of GDP)	-7.9%	2.4%	4.2%	1.8%	-0.2%	4.7%	10.6%	5.8%
<b>Capital account balance</b>	<b>67.2</b>	<b>15.2</b>	<b>29.8</b>	<b>40.6</b>	<b>42.1</b>	<b>22.2</b>	<b>40.9</b>	<b>14.1</b>
Official capital (net)	8.9	7	9.7	16.37	22.0	11.2	26.2	3.0
Official capital inflows	13.5	7.0	9.8	17.2	22.5	11.6	26.3	3.9
Official capital outflows	4.6	0.0	0.1	0.9	0.5	0.4	0.1	0.9
Private capital (net)	58.3	8.2	20.1	24.2	20.1	11.0	14.7	11.1
Private capital inflows	75.5	10.5	22.7	27.4	22.0	11.7	15.4	11.9
Private capital outflows	17.2	2.3	2.7	3.2	1.9	0.7	0.7	0.8
Other items (net)	-14.2	-43.8	-81.8	-59.5	-56.1	-55.6	-66.8	-1.8
<b>Overall balance</b>	<b>-14.0</b>	<b>-5.9</b>	<b>-8.9</b>	<b>0.3</b>	<b>-16.2</b>	<b>19.9</b>	<b>87.3</b>	<b>81.4</b>
<b>Memorandum items:</b>	222.9	323.9	375.8	407.1	422.2	452.6	567.7	568.2
Service, income, and transfers (net)	599.7	802.6	928.2	1,020.2	1,027.4	1,088.4	1,152.2	1,266.0
Receipts	390.8	523.8	609.3	672.5	680.9	708.6	778.6	829.6
Payments	167.9	199.9	233.5	265.4	258.7	256.0	210.9	261.4
Gross official foreign reserves (TOP million)	289.7	354.9	407.9	468.7	484.3	543.8	715.2	871.2
Months of Import cover (trade estimate)	8.1	7.2	7.5	8.0	7.9	9.2	11.8	14.4

Source: National Reserve Bank of Tonga

## Tonga: Monetary Survey: FY 2015 – FY 2022

<i>(T\$m, unless otherwise indicated)</i>	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22p
Net foreign assets	285.9	338.2	409.9	456.1	475.1	549.9	705.0	804.8
Foreign assets	297.1	373.3	434.4	483.7	507.6	574.0	758.7	912.0
Foreign liabilities	-11.2	-35.1	-24.5	-27.6	-32.5	-24.1	-53.7	-107.2
Net domestic assets	62.0	53.6	26.0	26.1	16.0	-53.5	-112.7	-128.6
Net domestic credit	206.0	247.0	278.0	275.6	278.8	248.4	201.9	164.2
Government (net)	-26.9	-29.4	-51.5	-90.7	-117.1	-158.4	-190.0	-204.6
Non-financial public enterprises	41.8	40.4	42.8	49.1	52.2	61.6	50.3	46.0
Private sector	191.1	236.0	286.7	317.2	343.7	345.2	341.6	322.8
Non-monetary financial institutions 1/	-3.9	-3.8	-4.2	-6.0	-5.1	-4.0	-4.1	-4.2
Other items (net)	-140.1	-189.6	-247.8	-243.5	-257.7	-297.9	-310.5	-288.6
Total domestic liquidity (M2)	348.0	391.8	436.0	482.2	491.0	496.4	592.4	676.1
Narrow money (M1)	188.2	216.5	237.9	238.6	258.6	246.0	330.5	394.1
Currency outside banks	45.4	48.5	61.9	70.3	70.3	71.4	94.8	108.6
Demand deposits	142.7	168.0	176.0	168.4	188.3	174.6	235.8	285.5
Quasi money	159.8	175.3	198.1	243.5	232.4	250.4	261.8	282.0
Savings deposits	49.7	59.4	63.8	73.2	79.6	87.8	99.4	119.4
Term deposits	98.6	103.7	124.4	154.0	142.3	156.0	155.0	159.5
Foreign currency accounts	11.5	12.2	9.8	16.3	10.5	6.6	7.4	3.2
<b>Annual Percentage Change</b>								
Net foreign assets	7.5	18.3	21.2	11.3	4.2	15.7	28.2	14.2
Foreign assets	5.5	25.6	16.4	11.3	4.9	13.1	32.2	20.2
Foreign liabilities	-29.1	213.4	-30.2	12.7	17.8	-25.8	122.8	99.6
Net domestic assets	-16.4	-13.5	-51.5	0.4	-38.7	-434.4	110.7	14.1
Private sector	9.0	23.5	21.5	10.6	8.4	0.4	-1.0	-5.5
Total domestic liquidity (M2)	2.4	12.6	11.3	10.6	1.8	1.1	19.3	14.1
Narrow money (M1)	7.8	15.0	9.9	0.3	8.4	-4.9	34.3	19.2
Quasi money	-3.4	9.7	13.0	22.9	-4.6	7.7	4.6	7.7
<b>In US dollars</b>								
Net foreign assets	135.6	153.2	187.1	200.6	208.8	239.8	313.4	343.1
Foreign assets	140.9	169.1	198.3	212.7	223.1	250.3	337.2	388.8
Foreign liabilities	-5.3	-15.9	-11.2	-12.1	-14.3	-10.5	-23.9	-45.7
<b>Memorandum items:</b>								
Velocity (GDP/average M2)	2.4	2.4	2.3	2.2	2.4	2.3	1.8	1.8
Exchange rate (pa'anga per U.S. dollar; end period)	2.1	2.2	2.2	2.3	2.3	2.3	2.2	2.3

Source: National Reserve Bank of Tonga

Source: Tonga Statistics Department



**ANNEX II: RECONCILIATION BETWEEN THE GFS AND ESTIMATES FOR FY 2024****9.1 Alternate Classifications of Financial Transactions (Government Finance Statistics, GFS)**

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

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

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

**A-Table 21: Reconciliation Table between GFS and Estimates FY 2024**

<b>Table 8: Reconciliation between Cash Inflows to the Government of Tonga Fund and Budget Revenues</b>	<b>Budget Estimate 2023/24</b>	
<b>Inflows to the Government of Tonga Fund</b>		<b>341,835,000</b>
<i>Plus</i> Inflows to other Funds		
Budget Support	50,469,600	
Donor In-kind	268,387,000	
Donor Cash Aid	96,552,300	415,408,900
<b>Total Inflows (as per Estimates)</b>		<b>757,243,900</b>
<i>Less</i> Inflows classified under Non-financial assets		
receipts from disposal of Fixed & Non-fixed assets		57,900
<i>Less</i> Inflows classified under financial transactions		
receipts from disposal of Financial Assets	211,700	
External Financing	-	
Domestic Financing	15,107,000	
		15,318,700
<b>Total Revenues (as per GFS Presentation)</b>		<b>741,867,300</b>
<b>Table 8: Reconciliation between Cash Outflows from the Government of Tonga Fund and Budget Expenditures</b>		
<b>Outflows from the Government of Tonga Fund</b>		<b>369,066,500</b>
<i>Plus</i> Outflows from other funds		
Budget Support	50,469,500	
Donor In-kind	268,387,000	
Donor Cash Aid	96,273,200	415,129,700
<b>Total Outflows (as per Estimates)</b>		<b>784,196,200</b>
<i>Less</i> Outflows classified as offsets to expenditure		
acquisition of Non-financial assets/liabilities	201,854,800	
<i>Less</i> Outflows classified as financing transactions		
payment for acquire of Financial Assets	8,200,000	
External Financing	47,347,400	
Domestic Financing	12,026,000	
		269,428,200
<b>Total Expense (as per GFS Presentation)</b>		<b>514,768,000</b>

Source: Ministry of Finance (MOF)

## ANNEX III: REVIEW OF THE GPA FY 2023

### 10.1 Thematic Area 1: National Resilience

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

##### a). Implementation of the HTHH Reconstruction Recovery Project

- Business Relief Assistance (\$0.38m)
  - Resilience Fisheries Development and Marine and Coastal Ecosystem conservation including Special Management Areas (SMAs):
    - 64 SMAs have been established in Tonga and 43 were affected by HTHH where most of the government recovery assistance is targeting to;
- Fisheries Tsunami Relief Assistance:
  - Aid was provided to 66 small fishing boats with both minor and major damages from the HTHH eruption;
  - Aid and support to 30 fish fence (pa ika) owners;
  - Fishing equipment was distributed to 158 individual private fishermen.
- Support was provided for fishermen from 26 out of the 64 villages with established SMAs Housing Reconstruction Program (\$1.83m)
- Tonga Volcanic Eruption and Tsunami Project
  - Reconstruction of elevated structures and 2 story units built at Category 5 cyclone standards
  - Out of the 238 houses for reconstruction, included 30 houses which have been completed, 127 houses are currently under construction and 81 houses are yet to start.
  - Most of these reconstructions were done in Masilamea, Patangata, and Ta'anga ('Eua), which were among the relocation sites for the people of 'Ataata, Mango, and Kanokupolu. The continuation of the Project is expected to move on to reconstructing Government Buildings for 'Eua and Ha'apai in the upcoming years once residential reconstructions are completed. The progress for the Project is slightly behind schedule; however, with recent contracts awarded to date, the remaining reconstructions are expected to be completed by the end of 2023.

##### b). Implementation of the Disaster Reduction and Climate Change related projects

- Financial Strategy was reviewed in 2022 specifically to incorporate the additional measures such as insurance so that it will ease accessing to the Pacific Insurance Funds when a disaster occurred;
  - Staff from the Ministry of Finance, NPD-PMO and Local Government were attending a Regional Training on conducting Budget Tagging and Risk Inform Development to be implemented in the next CP & Budget preparation (FY 2024)
- Climate Change Program for the Climate Change department of MEIDECC utilized \$0.3m of which 46 percent salaries, 30 percent operations consist of travels to outer-islands overseeing climate change programs/ activities, however no spending yet on government contribution to the climate change trust fund (which was usually for water tanks). No CCTF report has yet to be submitted. The program also funded NEMO department activities related to climate change, of which another \$0.3m had been utilized with 47percent salaries, 42percent operations – contract for security services to the two offices (Matatoa & Vaololoa). Training on disaster preparedness efforts was carried out (UNDP support).
- Additional Budget support from the Australian government of \$48.0m for the recovery efforts was also provided.
- The National Water Tank Project launched in 2020. Details of the project so far according to data from MEIDECC:
  - Total requests for water tanks & received by Department of Climate Change (DCC) at MEIDECC = 8576 tanks

- Total water tanks installed from the launching event in October 2020- January 2023 = 5,042 tanks
- Total water tanks target to be installed in Quarter 1 of 2023 = 1500 tanks
- Total water tanks remaining to be installed by the end of 2023 = 2,034 tanks
- According to our (DCC) record water tanks installation for the Niuaus has completed (all private households in The Niuaus have obtained water tanks). The installation of water tanks in 'Eua was to be completed by the end of January, 2023. Remaining water tanks will be installed in Ha'apai, Vava'u and Tongatapu. Largest percentage of the water tanks remained to be installed will be in Tongatapu followed by Vava'u (around 400+ tanks) then Ha'apai (between 100-130 tanks)
- NEMO and NPD-PMO conducted an Initial Damage Assessment (IDA) Training of government ministries, including NGOs and communities' representatives throughout Tongatapu, Vava'u and 'Eua. Ha'apai will be completed in Jan, 2023. This training is targeted for the enumerator who will conduct the IDA after the disaster happens. (funded by UNDP);
  - NEMO conducted a trial of the IDA template to the participants from Statistics Department, Agriculture, NEMO, Ministry of Fisheries, NPD-PMO, Local Govt-PMO, Ministry of Finance, MTED, MOT, MIA, MET and MOH and NGOs to strengthen the coordination of data collection and information gathering and minimize the duplication of efforts and resources. It is expected that after Ha'apai IDA training, there will be the finalization of the template to be uploaded online for ease of access of the enumerators and to prepare for a disaster when it happens in the future.
- Through the PREP Project, the World Bank funded Multi-Hazard Early Warning Systems (MHEWS) which includes Marine Coastal Stations. Also, a VHS Repeater was to be stationed at Tofua for better communication should emergencies occur.
  - A retreat for the Project Management Unit (PMU) and Project Stakeholders to share the project's component 1 activities and collaboration and a way forward until the PREP project completion in April 2025.
    - PREP also assisted in construction of 21 Wash facilities, of which 13 wash facilities had been handed over to MET and were given to the following schools across Tonga. The construction was done by private construction businesses:
      - GPS Navutoka, GPS Hoi, GPS Fasimoeafi, Takuilau College, Beulah College, Tupou High School, GPS Ma'ufanga, Mo'unga'olive College, Beulah Primary, GPS Vaini, GPS Kahoua, GMS Taoa, GMS Feletoa.
- NEMO conducted National Drills in September, 2022 throughout Tonga and it will be an ongoing event;
- NEMO completed 161 Village Emergency Plans for vulnerable villages throughout Tonga while the work is in progress with the remaining villages;
- Emergency Office Centres in Ha'apai and Vava'u were commissioned in 2022 while the MET office in 'Eua serves as its operation center. There is still need to provide emergency equipment for all offices such as:
  - Warehouse and proper equipment and vehicle/boat; and
  - Replicate Cluster reps at outer islands
- Successfully installed of the Early Warning System in 2022 through the NEWS project Tonga Broadcasting Commission (funded by Japan);
- Prioritised mainstream of Risk Informed Development into MDA's CP for FY 2024
- The Forestry Division of MAFF conducted the first National Tree Planting Day in December, 2022 starting with 3 traditional trees (sandalwood, heilala, coconut). There were schools, churches, NGOs, and communities involved. This is an ongoing priority of the Ministry whose target to plant 1 million trees aims to promote a green environment to meet the zero-carbon emission target under NDC.
- Monitoring, Control, and Surveillance Program to combat Illegal Fishing;
  - Through the Tonga Fish Pathway Project, the World Bank provided financial assistance to the Ministry of Fisheries to buy 3 Compliance Patrol boats fully equipped (Lot 2) and 3

medium boats to deploy Fish Aggregation Devices FADs (Lot 3) and they're anticipate to fully onboard next month

- MOF is currently registered by all the Fisheries people, both commercial and household consumers, to get the baseline data for future needs, e.g., IDA. This is one of the key priorities of the Ministry in Vava'u to know the fisheries needs, whether it's skills and equipment.
- Tu'anekevile village expressed interest in establishing a SMA however, there are land issues to be settled specifically on the boundary between Tu'anekevile and Ha'alafuli;
- 30 percent has completed under the biodiversity target specifically on Ecosystem-based approach to development and conservation of biodiversity and any Management Spatial Planning Area (MSPA) such as cultural and historical sites;
- According to the 2022 IDA training program findings, marine organisms in Vaipua, Taoa and Longomapu waters are diminishing due to ships (including yachts) anchored at Vaipua as chemicals refuse from these are destroying the marine organisms in these areas;
- **Tonga Energy Act and TERM Plus** were both approved in 2022 with ambitious targets and also incorporated seven critical areas to drive the implementation such as **energy supply, energy efficiency, electricity generation and distribution, energy security transportation, gender, data collection & training** (\$4.4m);
  - Completed an on-grid solar farm (650KW) – Vava'u mo 'Eua
  - Completed a 6MW Battery Energy Storage (Matatua) – targeting to load shifting
  - Completed a 6MW Battery Energy Storage (Popua) – targeting to stabilizing

#### c). Strengthen the compliance with Building Code

- Safer School Infrastructure Project:
  - Phase 1:
    - Tonga College Dormitory and Tsunami Schools:
      - Design and supervision firm contract to be signed at the end of November 2022 and construction of the 10 tsunami schools, including Tonga College, tentatively scheduled to begin in March 2023.
  - Phase 2:
    - Lot 2: Risk-based schools -
      - Design and supervision were advertised for an expression of interest and was closed on the 28 of November 2022. Design supervision contract signing is scheduled for May 2023.
  - MET and MOI planned to conduct a survey on the status of the government school's sanitary facilities. The aim of this survey is to ensure that all sanitary facilities meet the building code standard as well-being resilient to disaster risks
- Installed Ramps and Retrofit bathroom in evacuation centres which are priority needs identified in the community plans

#### d). Climate Change

- Relevant operations and activities by MEIDECC contributed to Resilience to climate change and disaster risk included:
  - Meteorology department of MEIDECC successfully procured and installed 21 automated weather stations throughout Tonga, providing weather observations and climate data which are turned into climate reports used by health, agricultural, water and research stakeholders;
  - The Department of Energy has received 250 solar street light systems donated by the People's Republic of China as to date 242 solar street lights have been distributed to much needed communities in the financial year 2023.

### **GPA 2: Reducing Relative Poverty and increasing quality of social protection.**

Policy measures to strengthen social protection (the poverty target 3.1 percent of the population are in absolute poverty), through providing ongoing support

Poor Households (SET project)

- Establishing SMAs (*reference in GPA 1*) are also targeted to preserve food security. The 64 SMAs outlined in GPA 1 are aimed at preserving the marine organisms and to provide food for the communities, therefore reaching poor households;
- From the World Bank's SET project, it disbursed 1st term school fees for 3,849 secondary students from disadvantaged households valued at \$962,250 Tongan Pa'anga.

#### Monthly allowances for elderly people and those with disabilities

- The monthly allowances for the elderly community have increased from \$70 per person to \$80 per person. Sometimes there is financial support for some months it increases from \$80 to \$100 per person however, most often they receive \$80 monthly allowance;
- The NRBF has upgraded from a manual distribution of allowance to direct deposit into the member's bank accounts.

#### Development project to support the development of the subsistence economy (TRIP)

- Part of the subsistence food products intervention of MAFF, there is an efficient collaboration between MAFF, Nishi Trading and MORDI on:
  - agro-processing flour mills project;
  - improve cool storage facilities;
  - upscaling of dryer volume capacity flour mills products.

#### In-kind support towards poor households (water tanks, sanitary facilities, etc.)

- Statistics on types of toilet facilities according to the Census 2021:
  - Overall, of Tonga, Tongatapu has the highest number of households using different toilet facilities<sup>16</sup> compared to other Island divisions;
  - While Tongatapu has the maximum number of households with flush toilets, (increased from 12,953 in 2016 to 13,705 households in 2021) Vava'u registered the highest number of households using pit toilets, even though it declined from 658 households in Census 2016 to 253 households in Census 2021;
  - In Tongatapu, Vaini village leads in the number of households occupied with pit toilets with 55 households by district, 10 households by village and 5 households by toilet facility and also has a disability.
- The 2021 Population census recorded 18,847 households in total and 65 percent of total households in Tonga have their own water tanks for drinking water;
- The Natural Resources Division (MLNR) conducted a Water Supply Survey based on a project known as Strengthening Water Security for Niuafo'ou (SWSNs) was funded by the SPC which outline the progress below:
  - The project focuses on water security and water capacity since Niuafo'ou communities have 447 water tanks and 255 are connected or used and 192 are not connected or not used due to the standard of houses are lower than the height of the tanks;
  - This survey was completed for Niuafo'ou and Niuatoputapu in January 2023 and if possible, submit reports by June or July in 2023 so they can apply for phase 2 of funds.
- According to data on water tanks installations from MEIDECC:
  - Total of **5,042** water tanks installed across Tonga from October 2020 - January 2023;
  - A total of **2,034** water tanks to be installed by the end 2023.
- The Ministry of Infrastructure's CP for the current financial year (2023) highlighted their plan to upgrade three toilet facilities in the most vulnerable areas;
- Water and Sanitation Project (funded by UNICEF):
  - Phase 1 of upgrading the toilet facility for the communities in Tongatapu through the CSOs is expected to be completed by the end of this financial year and proceed to the 2nd phase led by Climate Change Dept-MEIDECC.
- MORDI conducted a Community Water Project for preparedness to Eua Island. It was reported in December 2020 they established 265 (5,000 litres) and 27 (10,000 litres) water tanks. A total of 292 water tanks for 'Eua.

<sup>16</sup> Types of toilet facilities (Flush toilet, manual toilet, pit toilet, other toilet facility)

### Electricity tariffs support for poor households

- The Tonga government operated 2 electricity support tariffs. The government's electricity tariff support was effective as of 1st April 2022.
  1. After all considerations made by the Competency Authority and Tonga Power Limited, they concluded with **97.91 cents per kWh**. Tonga government's support every household by subsidizing power bills up to March 2023.
  2. **Government lifeline tariff discount scheme**. This scheme was for every household that consumed electricity from 0-100 kWh per month. Government later increased the limit to 0-150 kWh per month.

### Aged care services provided by Ma'a Fafine mo e Famili, NGOs

- Additional providers for age care services are Uluaki Faiako and Ono Mailangi.

### Government relief and recovery support assistance for affected households

- The Ministry of Agriculture showed significant efforts in implementing the "Food Security Preparedness Program for the Corona-virus Pandemic" as well as the recovery and rehabilitation for all those affected by the HTHH volcanic eruption through ashfall:
  - The assistance distributed were 4,000 tractor hours (278 hours/constituency) of subsidize ploughing;
  - Supply of planting materials;
  - One tractor from China's Aid, 500 litres of diesel and planting material to Nomuka island;
  - Provision of maize and bean seeds from SPC directly to farmers of Tongatapu, 'Eua and Ha'apai, Vava'u and the Niua;
  - Vegetable seedlings were raised by the Research, Forestry and Extension Division and distributed 14,561 trays (60 seedlings per tray) of seedlings to the people of Tongatapu for recovery;
  - Provision of vegetable seeds to the MORDI Project and Tonga National Youth Council and some commercial farmers in Tongatapu;
  - Provided about 14,962 two-weeks-old Broiler and Layer chicks to the villages of Tongatapu, 'Eua, Ha'apai, Vava'u and the Niua.
- Humanitarian Cash Transfers of \$1.5m funding is expected to be distributed to support 3,000 beneficiaries from affected areas in Tongatapu, 'Eua and Ha'apai, to recover from the impacts of the recent natural disasters.

### Housing Support

- Reference to GPA 1, reconstruction in the past 2 years of residential houses damaged by TC Gita and Harold enhanced the standard of living of the people in those affected areas. Also, the same program applies to the HTHH recovery efforts, where major rebuilding of displaced communities as well as renovation of other affected communities. The principle of building back better was applied to enhance standard of living not only by providing assistance towards residential houses but also relocating to higher grounds to mitigate impacts from future sea level rises and other natural disasters. The design of these buildings is more inclusive that provides better access for the vulnerable people both at their homes and public places;
- Recovery constructions of 238 completely destroyed and severely damaged residential buildings by the HTHH:
  - 30 houses – completed;
  - 127 houses currently under construction houses; and
  - 81 houses are yet to start.

### **GPA 3: Mobilizing National and International response to effectively reduce supply and the use of Illicit Drugs, and address harms reduction processes.**

This is the second year of implementing the National Action Plan for Illicit Drugs (NAPID) by the line ministries that have significant roles in National Security. Outlined below are the programs that these line

ministries in place and continue to implement in targeting to reduce the supply, demand, and harm of Illicit Drugs:

- Allocated \$5.0m in FY 2022 and **increased to \$7m** in the current fiscal year to implement the activities listed in the NAPID that were further discussed in the National Symposium and approved by Cabinet in 2021;
- There is a Steering Committee and Technical Committee that is administered by the Ministry of Police and 3 subcommittees for the specific 3 areas (Supply, Demand and Harm) in place to monitor the progress of the activities outlined in the NAPID. The **NAPID Steering Committee approved the projects** listed below during FY 2023:
  - Completed are Hazmat Training for TFES staff (\$35,000), Speed detection devices (\$55,000), Unmanned Aerial Vehicle (UAV) Drone (\$111,680.02), Patrol Electric Bikes (\$45,000), Covert Audio/Visual Recorder and Surveillance Cameras (\$138,720.34);
  - Ha'asini Fire Station (\$1,360,000), Procurement process;
  - Construction in progress are Hazmat Facility (\$280,000) and Hu'atolitoli Security fence (\$1,500,000);
  - Handheld Backscatter (\$150,000), Payment process; and
  - Returnees Rights – Building Back Stronger: In progress.
- The Prisons Department **established a new unit called Drugs Unit Management that works 24/7** to focus on combating Illicit Drugs crimes and protective activities to ensure security and safety of the public. However, this is a new intervention of the Prison with existing staff, which reduces the HR capacity in the current responsibilities of the Prison's Department and hopes to increase the HR in the next fiscal year. Another challenge with Prison is the compound fence and security equipment to make sure the drug is not access to the prisoners;
- AGO assisted the MDAs with all **draft legislation related to Illicit Drugs** to review the penalty fees, amendments to the Prison and Probation Acts. For instance, prior to release of prisoner(s) through strengthening of the reintegration to include a pre-release and post-release program to ensure that there is a smooth transition of people with criminal history back to the community;
- **Completed piloting the Youth Diversion Scheme (YDS) Training** of few Police personnels in the District Stations (Mu'a and Vaini) particularly on how to handle and supervise the youth prisoners in the District Station's cells;
- HMAF, MORC and MOP **enforced their collaboration through the patrol services** of both marine/air and land transportation patrol.

## 10.2 Thematic 2: Quality Services and Affordability

**GPA 4: Improving education for all, focusing on safer schools, addressing drop-outs, gender equality and increase employable trainings for both local and overseas opportunities.**

### GPA 4 Review of Performance FY 2023

The primary focus of GPA 4 is to ensure improved education for all and encourage both academic and vocational knowledge and skills and listed below are achievements delivered by the Ministry of Education in partnership with Non-Government Schools in Tonga.

#### a) Scholarships, Subsidies and the Tonga National University

- School dropouts are a major concern for the entire country hence, the **Tonga Student Support Fund Dropouts Program** could fund 442 beneficiaries across the country. As the economy was crippled due to the lockdowns, border shutdowns and the HTHH volcanic eruption, hardship across the country was inevitable;
- Government supported **subsidizing school fees** and during the COVID-19 period;
- A total of \$15.7m allocated to **scholarships** and student support; and
- A major milestone in education in Tonga was preparation and establishment of the **Tonga National University**, which will strengthen the educational recognition of Tonga and provide

opportunities for tertiary studies at the degree level through the collaboration and partnerships between existing academic and vocational institutions in Tonga.

- b) **Continue Support towards Early Childhood Education and Primary extension to Form 1 and 2**
- The **Early Childhood Education (ECE) Program** has successfully been established with a new official syllabus completely in place. The purpose of strengthening education for 4 years old will continue to flourish and produce bright students and in alignment with the Education Act 2013;
  - The **curriculum was reviewed and launched** following the previous ten years' curriculum that had preceded. To date, 47 ECE classrooms have been established and shows an increase in ECE access from 30 percent to 50 percent; and
  - Government primary schools continue to **extend the classes from class 6 to forms 1 and 2** to encourage children to continue free education up to forms 1 and 2 towards **pathways both academic and vocational**.
- c) **Completion of the school reconstruction and repair programs: Tonga Safe and Resilience School Project, Inclusive Education Project (UNESCO), Tonga Skills Development**
- Improving Safety and Resilience of Education Facilities is a key component of the Tonga Safer and Resilient School Project to ensure a resilient education environment has been mentioned in GPA 1 however, **continuing is the review and implementation of the National Curriculum** by the Ministry of Education with the support of the World Bank providing technical advisors for this activity;
  - **Cabinet approved the National Assessment Framework**, designed to provide evidence about students' achievements at a particular stage of education, in identified curriculum areas;
  - In progress is the bidding process for the **EMIS software** under a partnership with Save the Children & SET (co-funded) projects;
  - Safer school project continues its **Part 1: Tonga College Dorm and Tsunami Schools** and **Part 2: Lot 2: Risk-based schools**; and
  - The **completion of the new Tonga Side School building at one location** which addressed the previous challenges of it being at different locations.
- d) **Recovery support (e-learning) and others: School drop-out and unemployment, cost recovery measures**
- The COVID-19 lockdowns exposed Tonga to new modes of delivering education such as Home School Program through local radio stations, Moodle online courses, zoom classes and webinar sessions. This led the government to establish a **laptop initiative to students in forms 6 & 7 and later also included form 5** at a total cost of \$1.53m for purchasing 2,000 laptops;
  - **Subsidies to non-government schools**, maintenance/ renovations of school buildings to **include Forms 1 & 2 in primary** schools particularly to address school drop out by encouraging students to continue education after Class 6 and **lifting the national examination** from Form 5 to **only Forms 6 and Form 7**; and
  - Finally, worth mentioning the **teacher's registration is now at 99 percent**. The idea behind this is for recognized qualification for teachers towards quality education for our students at all levels.

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

### a). **Coordinated Government responses to re-open border safely, through a phased approach**

- Closer partnership with the Development and significantly with World Health Organization (WHO) through the Ministry of Health on **COVID-19 measures, strategies**, and logistics to manage Tonga's preparedness and vaccination coverage;
- Following the HTHH eruption and tsunami, Tonga encountered its **first COVID-19 case** enabling the Traffic Light System and alignment with the Emergency restrictions with regular press releases;
- On 22 March 2022, Tonga went into **Red Light under the Traffic Light System**, with its First wave, 8,761 (8.7 percent people being fined) for breaching COVID-19 restrictions. As of 26 July,



2022, 12,541 had COVID-19 with **12 deaths with the first wave of COVID-19**. COVID-19 Omicron BA 1 commenced in Tonga;

- The first week of September was the **second wave of COVID-19 in Tonga** with 3,974 with confirmation it is Omicron BA 5 with no deaths;
- **National Restrictions passed at the House** with regular updates circulated and led by the Prime Minister's Office;
- As of 22 November 2022, Tonga has reached COVID-19 AstraZeneca **vaccination rate of 98 percent** (12 years old and above) that has completed the first dose and 92 percent that has completed its second dose. In addition, 55 percent had taken the booster dose and a further 2 percent had the second booster (Moderna). In addition, 54 percent (under 12 years old) have had the COVID-19 Pfizer with the first dose and 21 percent completed the first and second dose;
- **Repatriation flights had quarantine of arrival passengers** initially at 14 days, later dropped to 10, 7, 5 and 3 which began at quarantine facilities and led up to home quarantine with up to 7,199 passengers since initial flight on 13 July, 2020;
- In August 2022, the Kingdom of Tonga **moved into Orange in August, 2022 and borders slowly opened**, with limited flights entering Tonga with mandatory requirements. Following in September, **Tonga moved to Green within the Traffic Light System with more flights extended to Tonga with mandatory vaccination** for non-Tongans through the Health Declaration Form) entering the Kingdom of Tonga;
- Budget allocation \$60.0m related to COVID-19:
  - \$15.45m in FY2020 for preparedness activities and supporting private sector and employers impacted by COVID-19;
  - \$31.95m in FY2021 for the continuity of preparedness activities, including equipment, front liners and informal sector; and
  - \$12.55m in FY 2022 for priority needs of businesses and employers, repatriation of Tongans and Virtual and Radio Education for Students.
- \$4.0m in FY 2022/2023 for COVID-19 assistance service subsidy within 8 ministries for Special Projects.

#### b). NCD: Healthy Lifestyles and Preventative Measures

- Launched is the **National Non-Communicable Diseases Strategy for 2022** with the Prime Minister emphasizing a collective effort to tackle the leading cause of death and disability in Tonga - heart disease, diabetes and some cancers;
- Completion of consultation and approval process resulted in the launching of the Tonga National Strategy for the Prevention and Control of Non-Communicable Diseases; and
- The Ministry of Fisheries aimed at ensuring food security which also promotes NCD led healthy life by providing **subsidized snapper fish for the local people at the affordable price of \$7 per kilogram**. The total cost of fish bought from fishing vessels for this activity was \$0.78m TOP. Tuna – 505mt landing and 25mt (*Relevancy also to GPAs 1, 2 and 7*).

#### c). Health infrastructure and other health priorities

- For Universal Health Coverage & Others - the Outturn is \$15.7m resulting from the **completion of the Central Pharmacy Warehouse's construction** in this FY; and
- Continuity and progress of **the renovation to the Queen Salote Nursing School** in Tongatapu.

#### d). Health Insurance Scheme

- Continuation collaboration on the **Health Insurance Scheme** with Ministries of Finance, Health and Public Service on the development of a Health Insurance Scheme in the replication of the Singapore Insurance Scheme.

**GPA 6: Building quality and easy access to government services, public enterprises focusing on increased access to high-speed broadband technology and more affordable energy, communication, drinking water and clean environment for Tonga to support inclusive growth.**

There was major progressive in implementing this GPA, which was targeted to improve the efficiency and effectiveness of the public services such as public sector reforms, e-government through sharing of information across government ministries and renewable energy. These are the details of the progresses made in the last six months of the FY:

a). **Public Sector Reform Program**

- **Policy Reforms** are monitored through the **Joint Policy Reforms Matrix (JPRM)** by the Ministry of Finance. The JPRM is grouped in three (3) areas as detailed below and the progress made in the last six months:

i). **Strengthening Public Finance and Administration:**

❖ **Public Finance Management Act (PFM):**

Review was submitted to Cabinet in April prior to submission to Parliament. The amendments outline key fiscal responsibility principles to guide fiscal policy and a numerical limit on the stock of government guaranteed debt. A steering committee was established in 2022 to oversee the progress of the PFM actions plan determined from the Public Expenditure and Financial Accountability (PEFA) report. 136 actions were implemented and 74 have been completed, 54 percent completion rate;

❖ **Revenue Services Administration Regulations** (Electronic Sales Register System) approved by cabinet in 2022;

❖ **Public Service Fraud Policy** and the Public Service (Disciplinary Procedure) Regulation amendment is on the pipeline to resubmit to cabinet.

ii). **Enhancing Resilience to Climate Change and Disasters:**

❖ Amendment of the **Emergency Management Act 2007** and to rename it as **National Disaster Risk Management (DRM) Act** has been approved by Cabinet and currently with Privy council to endorse;

❖ Draft of the **Multi-Hazard Early Warning System (MHEWS) Policy** and review the **Treasury Instructions that govern the National Emergency Fund (NEF)** was shared with the relevant stakeholders for further comments based on further information required by the World Bank prior submission to Cabinet for approval in April 2023;

❖ Cabinet has approved the **National Social Protection Policy** and to be effective once the Disaster Risk Management Bill is given Royal Assent.

iii). **Maximizing Human Capital and its economic returns and boost productivity:**

❖ **National Curriculum Framework** approved by Cabinet in 2022 and **National Assessment Policy Framework** to be resubmitted the revision this year;

❖ **Qualification Authority Bill** drafted was reviewed by the TNQAB members with comments to realign to the **Education Act** and **TNU Act**;

❖ Confirmed two exporters to pilot the **Trusted Trader Program** are Palu Aviation and Nishi Trading will commence when Cabinet approved the program;

❖ **Energy Act** had been enacted in 2022 which include requirements for appointment of the Energy Commission members and the General Energy Regulation; and

❖ Establishment of the new line ministry, Ministry of Fire Emergency Services took place in this current fiscal year.

b). **E-government project**

The e-government project has been formerly named the Digital Transformation Division under the Prime Minister's Office since its transition from MEIDECC. A total amount of \$6.7m from the World Bank in the development budget has been allocated in the recurrent budget for the current fiscal year to strengthen the e-government project.

An E-government National Strategy guided all digital reforms in the government administration for efficient and effective sharing of data and information. Finally, the Cyber Emergency Response Team (CERT) of MEIDECC signed an agreement with the Government of New Zealand (CERT-NZ) for the cybersecurity workforce development for the next 3 years, which aims to enhance the capacity of the staff.

#### c). Reliable, safe and affordable water supply

The progress of the recovery efforts post HTHH volcanic eruption was successful due to a great collaboration approach between the Ministry of Land and Natural Resources (MLNR), Ministry of Health (MOH) and Tonga Water Board (TWB) through testing and providing water treatment chemical to all households in Ha'apai, Tongatapu and 'Eua that access to **rainwater supply system** to ensure the water is safe for consumptions. The TWB has successfully completed the installations of the water pumps for the new 'Atata residential area in Masilamea and also the Mango residents in Eua while continuing with the remaining areas and expect completion by the end of this year. The Ministry of Land & Natural Resources conducted a Water Supply Inventory across Tonga through the Water Resources Management Program. The Ministry covered the Niuas in this reporting period and that was the last island. Through the Public Enterprises, the Tonga Water Board, is progressing the upgrade of the Water Supply System using Solar Farm Renewable Energy funded by donors.

#### d). Affordable Renewable Energy

The ongoing threats of climate change to Tonga are gradually increasing hence the emphasis on renewable energy development projects. There are various projects currently implemented, such as the Integrated Urban Resilience Sector Project, Nuku'alofa Network Project, Outer Island Renewable Energy and the Tonga Renewable Energy, to name a few. The ongoing support from the People's Republic of China in the form of 250 solar street lights were donated to ease the electricity bill burden on the communities. The Tonga Energy Act and TERM Plus were key milestones in driving Renewable Energy that are mentioned in GPA 1 which are worth referencing in this section.

#### e). Asset Insurance Scheme

The Ministry of Finance led the discussion to prepare the Asset Insurance Scheme for the Government and the PEs Assets. The basis of this policy will be focused on the PE's existing Asset's policies.

### 10.3 Thematic 3: Progressive Economic Growth

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

Through this GPA, the government is working towards sustaining the economic growth of the country to support a more progressive life for all Tongan. Outlined below are the government interventions that made significant progress in recovering the country from the impacts of the HTHH event and the Global Pandemic of COVID-19.

#### a). Fisheries Sector

The actual contribution of this sub-sector to the Primary sector of the economy before the HTHH happened was 2.1 percent (FY 2021).

- The Ministry of Fisheries has farming various Aquaculture products targeting to export to the interested markets such as Hawaii, Japan and China:
  - 38 pearl farms (tofe) across Tongatapu, Vava'u and Ha'apai;
  - 7 sea cucumber (mokokohunu) farms of which 5 are located in Tongatapu and 2 in Vava'u;
  - Farming of giant clams (vasuva) in 10 established SMAs aiming to occupy all established SMAs; and
  - Squid fishery development.
- Further developing Deep Sea fishing of Tuna and Snapper which able to be registered (8 Tuna foreign fishing vessels, 5 local Tuna fishing vessels, 15 Deep water snapper fishing vessels);

- Long line fishing using Fish Aggregation Devices (FAD):
  - 39 FADs were utilized. (10 TBU, 8 VV, 2 NTT, 3 NF, 3 HP and 13 ‘Eua); and
  - 22 more FADs to be utilized. (5 TBU, 7 ‘Eua, 5 HP and 5 VV).
- As reference in GPA 1 and 2, all those fisheries activities were also contributing to the economy, including the Government subsidies and supports such as Fishing Equipment, importing bait, Fuel.

#### b). Agriculture

The actual contribution of this sub-sector to the Primary Sector of the economy was 16.2 percent ( FY 2021). The Ministry of Agriculture, Food and Forestry quickly mobilized the various assistance from the government and also development partners to the farmers and the community’s groups such as women, youth and including NGOs and Private Sectors (exporters) after the HTHH event:

- Completed the review of stocktaking of all the agriculture types, locations and farmers and also encourage the farmers to registered in the Ministry for the on-going collaboration such as the relief assistance from the government, micro loans scheme and other assistance to the farmers;
- Subsidizing costs of production, i.e., plough, seedlings root crops (taro/yam/tapioca);
- Improved Agriculture export products:
  - Kava exports contributed 29.5 percent of total exports as of 2022 2nd Quarter – explore options for markets; improve process of planting and harvest of vanilla; and
  - Reviews the current Government subsidies and supports to the sector.
- Improved communication and coordination amongst key stakeholders, such as:
  - Local Government by attending the community’s Fono to share the ministry’s interventions and planning across the island and follow up the progress of the agriculture activities in the communities; and
  - In reference to the tree planting, please refer to GPA 1
- Cabinet approved in May, 2021 the Circular Economy Project which targets to support food security, renewable energy and also to contribute to the economy:
  - There are two components which are i). Feed mill and ii). Broiler Production. The Feed mill is planned to start first then broiler later; and
  - The Cabinet approved for the Ministry to proceed with the detailed cropping development of the project and for MPE and the Ministry of Finance to conduct the due diligence of the project’s industry plans.

#### c). Tourism & Businesses

Outlined below are the programs that the Ministry of Tourism achieved since last year (half of FY 2022 and half of FY 2023):

- Effectively coordinating Government relief assistance to the Businesses (tourism, Wholesale & Retail, Restaurants, Hotels & bars, Manufacturers and big Companies) that both affected by the HTHH event and the COVID-19 impacts and also identifying the challenging of the administration processes such as duplicating of providing the assistance whereas the way forward for preparedness for any disaster happen in the future;
- Continue helping the businesses such a supporting letter to support their GDL application at TDB;
- Marketing of the tourism activities to the local during the lockdown such as whale watching, restaurants for social events; and
- Effective implementation of the Beautification Program under the Ministry of Tourism through upgrading of Nuku'alofa Waterfront Areas from Sopu to Patangata, the Historical/ Tourist Sites, Public Facilities after the HTHH event.

### **GPA 8: 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 infrastructure sector is a key driver of economic and sustainable development in Tonga. This has been prioritized by the Government of Tonga, especially post HTHH Volcanic eruption, in which severe damages to the infrastructure of Tonga occurred. Initial damage assessment from the World Bank estimated

infrastructure damage to cost some \$48.0m. Tonga National Recovery Committee's Recovery Report estimated the damages to cost TOP315.0m. A total of 468 rehab and reconstruction households/infrastructure. Significant achievements of the sector are highlighted below:

a). **Review of the National Infrastructure Investment Plan (NIIP III) 2030**

- The NIIP III which included an extensive multi-criteria analysis component of the application form for project prioritization that was reviewed and approved by the PADCC and Cabinet in August 2022 was reopened for review to include infrastructural projects that arose post HTHH. 47 new projects were included into the NIIP post review, 21 of which are because of HTHH and 7 partially attributable. Projects submitted from the Line Ministries, Public Enterprises and Non-Government Organizations to be included in NIIP include:
  - Transport Infrastructure Development (Air, sea, land); and
  - Improve Public Infrastructure:
    - Implementation of Safer School Project (Linked to GPA 1); and
    - Upgrade of Health Facilities.

b). **HTHH Volcanic Eruption and Tsunami Recovery Project Progress**

- Recovery Plan has been approved by the Cabinet to drive the recovery activities, both reconstruction and others, such as Agriculture, Fisheries, Tourism and Businesses;
- PMU has in place to supervise the reconstruction and also provide the updating report to Cabinet;
- Expand the designing scopes of the residential houses that were affected to be resilient in the current locations;
- Relocation of the displaced Tongans post HTHH:
  - Locations for new homes for the displaced include the Hihifo area of Tongatapu and His Majesty's estate in 'Eua.
- Establishment of the HTHH Tsunami Reconstruction Project Management Unit to follow closely all HTHH Infrastructure project and oversee its successful execution; and
- Establishment of the Housing Resilient Unit that enforces resilient housing codes during building phase of all infrastructure.

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

The Kingdom of Tonga faced vast changes in 2022 all of which includes:

- Election of a new Government, with a new Prime Minister with modified policy priorities, with increased legal challenges to the election results;
- Disruptions to supply lines, including shipping, and accelerating world inflation;
- HTHH volcanic eruption and associated tsunami and ash fall;
- COVID 19 entering the Kingdom, along with a strong strain of flu, followed by lockdowns; and
- Significant aid funding and related activities associated with addressing these geological health challengers, which were delivered without direct contact

GOT continues to prioritize and strengthen the partnerships with countries to receive assistance in all sectors, including; health, education, trade, tourism, and infrastructure. GOT recently opened its borders in September 2022 after being closed for almost 3 years after the onset of the pandemic in which zoom was the main platform for meetings and consultations.

The Island Development committee was revived with the Minister of Foreign Affairs as the chair where the needs of each island and the communities are discussed and officially noted and tabled for further discussion of prioritization before shared with development partners.

a) **Tonga Australia Support Program**

- \$1.2m handover to the Prime Minister occasioned by Her Royal Highness Princess Lātūfuipeka Angelika Halaevalu Mata'aho Tuku'aho (High Commissioner of Tonga in Australia) in the presence of Australian High Commissioner to Tonga H.E. Rachael Moore to support the GOT. These were funds raised in response to calls for assistance following HTHH.

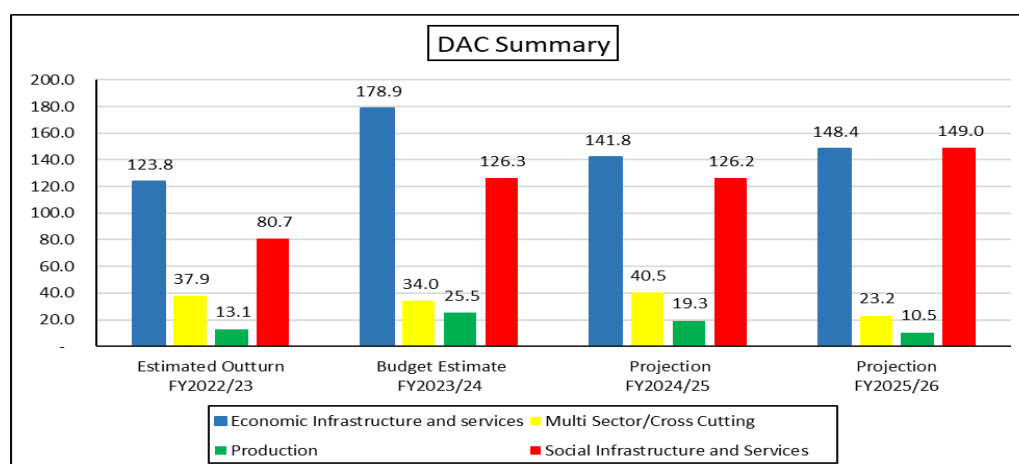
b) **Strengthened bilateral engagements**

- The establishment of the United States Embassy in Tonga;
- The Minister of Finance attended the 2022 Effective Development Co-operation Summit in Geneva affirming development cooperation and mobilizing different types of finances and partnerships;
- After the SPC conference governing body approved for Tonga to host the first Polynesian Sub-Regional Office;
- Australian Minister for International Development and the Pacific signed 3 bilateral agreements with Tonga which are of the following:
  - MOU between the Governments of Tonga and Australia to support citizens taking part in the Pacific Australia Labour Mobility Scheme;
  - MOU for Aviation Support; and
  - Direct Financing Agreement for AUD 30.0m additional budget support from Australia to GOT.
- UNICEF Office in Nuku'alofa was established overseen by a Social Policy Specialist, Ms. Talei Cama, Mr. Jonathan Veitch UNICEF Pacific Representative also had an audience with the Minister of Foreign Affairs discussing activities and support to Tonga and its Government Priorities;
- Minister of Foreign Affairs and UN Resident Coordinator to Tonga signed the UN Sustainable Development Cooperation Framework 2023 – 2027;
- During the Diplomatic Week 8 Nonresident ambassadors visited Tonga and presented their credentials to His Majesty the King;
- First Czech Consular Office opened, attended by the Prime Minister and Czech Republic Ambassador;
- 5 Diplomatic relations formalized with the: Republic of the Marshall Island, Kingdom of Bahrain, The Kyrgyz Republic, Federation of Bosnia and Herzegovina, Republic of Tajikistan and Rwanda;
- Establishment of passport printer in the Tonga Consulate in Auckland to improve engagement with Tongan diaspora;
- Minister for Tourism of Saudi Arabia donated US\$5.0m for the establishment of the National Museum, \$250,000 for HTHH – recovery efforts, and US\$100,000 for training of the Ministry of Tourism staff;
- Governor-General of PNG, Head of State of Samoa, Foreign Minister of NZ, French Special Envoy Visit, Secretariat General of the Japanese Liberal Democratic Party, Australian Minister for International Development and the Pacific, all visited Tonga during 2022 and early 2023 to strengthen bilateral relation; and
- Successful conducting of diplomatic weeks (8 Ambassadors), Cuba, USA, Netherlands, Denmark, Hungary, UAE, UNDP.

**ANNEX IV: DEVELOPMENT BUDGET FY 2022 – 2026****11.1 Development funded Project Expenditure by Development Aid Classification (DAC)**

The *A-Figure 11* shows that the Economic Infrastructure and services continues as the dominant contributor of 49.1 percent or \$178.9m of the total development budget estimate for FY 2024. This reflects by the heavy investment in transportation such as Ports, Drainage, Roads, and other Government key infrastructures. The Social Infrastructure and services estimated \$126.2m or 34.6 percent as contributing to Education, Health, Water Supply, Sanitation, support to Civil Society and others. Other sectors such as Production and Multi-Sector/Cross-Cutting continue to be supported by development partners in the coming years.

A-Figure 21: Development funded Project Expenditure by Development Aid Classification (DAC)



Source: Ministry of Finance (MOF)

## 11.2 FY 2023 Development Budget by Development Partners

**World Bank:** The World Bank development assistance for FY 2024 is amounted to \$117.1m.

- Tonga Climate Resilient Transport Project (TCRTP) I & II:** Tonga Climate Resilience Transport Project phase one is approaching its final stages and is due to complete in December 2024. The project's major components include upgrading the Niuafo'ou Port, resurfacing the Ha'apai airport runway, rehabilitation of the Loto and Liku Road in Tongatapu, and road maintenance in Vava'u. The second phase of the project will continue with road rehabilitation, maintenance of Taufa'ahau and Nafanua Port, resurfacing of the Kaufana Airport runway, and construction of outer-island jetties;
- Skills & Employment for Tongans (SET) Project:** The Skills and Employment for Tongans Project are gradually approaching its final stages and it's the Ministry of Education and Ministry of Internal Affairs continue to deliver the core project activities including financially assisting selected students at the Secondary School level and TVET and carrying out pre-departure training for seasonal workers and capacity building for Overseas Employment Division under MIA;
- Tonga Safe and Resilience Schools Project (TSRSP):** The TSRSP implementation is now progressing with the construction of the classrooms and staff quarters affected by the volcanic eruption and tsunami in 2022 throughout Tongatapu and the outer islands. The project will also support the development of the Education Management Information System (EMIS) and improve the quality of curriculum and assessments;
- Pacific Resilience Program (PREP):** One major component of this project which is expected to complete in FY 2024 is the construction of the MET/NEMO headquarters. The work is expected to be completed by end of this financial year before the project completion date. PREP Project is currently working closely with all its stakeholders for building back better for resilience Tonga; and
- Tonga Digital Government Support Project (TDGSP):** This project will also end in FY 2024 and major components including drafting of priority legislations are currently progressing.

**Asian Development Bank:** The estimated assistance from ADB for FY 2024 is approximately \$85.4m and major projects are listed below.

- Outer Islands Renewable Energy Project:** The project will end in the first six months of FY 2024. It has assisted in constructing and installing solar power systems with a total capacity of 1.32 MWp on 9 outer islands of Tongatapu and the existing grid network on the islands of Vava'u, Ha'apai and 'Eua;
- Tonga Renewable Energy Project:** The project will end in FY 2024 and most of the solar energy and battery energy storage system (BESS) have been installed in Tongatapu, 'Eua and Vava'u. The

remaining scope is the off-grid 100 percent renewable mini-grid systems for the islands of Niuafu'ou, Kotu, Tungua, Mo'unga'one and 'O'ua to be completed September 2024. Two additional scopes for Off-grid mini-grid system for 4 outer islands in Vava'u to be completed by December 2023. The first is a Generation and Distribution Management System for Tongatapu which is awarded and expected to be completed by the end of 2023;

- **Nuku'alofa Port Upgrade Project:** The project is now progressing with the implementation to upgrade the Queen Salote Wharf in Nuku'alofa and improve operations and resilience to disaster risks and climate change. An additional financing for a total amount of US\$30.0m shall be provided by the Australian Infrastructure Financing Facility for the Pacific (AIFFP) with a co-financing grant of US\$20.0m to be administered by ADB and ADB with a grant of US\$10.0m;
- **Systems Strengthening for Effective Coverage of New Vaccines in the Pacific Project:** The project provides effective health coverage with provision of routine vaccines such as human papillomavirus vaccine, pneumococcal conjugate vaccine, and rotavirus vaccine. The Bank also provide further financing in 2021 to support the introduction and roll-out of COVID-19 vaccines;
- **Integrated Urban Resilience Sector Project:** The project implementation was hindered by the COVID-19 travel restrictions however it is currently in progress. The Drainage flood infrastructure component has received their Drainage cleaning equipment to assist with project operation. The construction for Tapuhia Cells is due to start later this year. IURSP also provides support to Waste Authority Limited (WAL) by providing rubbish trucks and rubbish compactors;
- **Nuku'alofa Network Upgrade II Project:** The project will restore reliable access to the electricity supply network (Area 5) and make it more resilient to extreme weather and disasters. ADB is co-financing this project with other development partners specifically for the Nuku'alofa Urban areas;
- **Pacific Disaster Resilience Program:** The Government has also signed with the Bank for Phase 4 (US\$10.0m) of this program. The funds will be drawn down once a disaster occurs;
- **Integrated Aged-Care Project:** The project is still in its designing phase and is expected to implement towards the beginning of FY 2025. The project will help establish an integrated aged care services through 3 age care facilities in Tongatapu and one in Vava'u island; and
- **Fanga'uta Lagoon Bridge Project:** The ADB and the Government are still working to find funds to finance this project. The project will help to ease traffic congestion and open areas for development.

**Government of Australia:** The Australian Government supports FY 2024 of \$ 50.5m. This is attributed to Tonga's priorities in economic growth, energy, security, infrastructure, social inclusion, health, education, climate change mitigation and adaptation, disaster resilience, preparedness and response, agriculture, and additional budget support.

- DFAT is also co-financing other projects such as Energy, Education and Parliament House. DFAT continue to support the Health Sector through Tonga Health Systems Support Program Phase 2 & 3 (THSSP) under the Ministry of Health to deliver a more effective, efficient, and equitable preventative and primary care service for the Tongan population, with a particular focus on non-communicable diseases (NCDs). Support through THSSP 2 & 3 remained critical for equity of access to health services in the outer islands, enabling clinicians to continue to provide general medical, surgical, mental health, rehabilitation, dental, and diagnostic outreach missions. Community health programs and outreach continued, including the Healthy Village pilot which focuses on community ownership for health promotion to prevent NCDs at the village level. Essential pharmaceutical procurements for the treatment of NCDs also continued under THSSP 2 & 3;
- In December 7<sup>th</sup> 2022 an agreement signed between the Government of Tonga and DFAT for AUD\$30m with an additional budget support of AUD\$5m through JPRM platform;



- It also supports women through the Pacific Women Shaping Pacific Development Managed by RCP. Pacific Women supports Pacific countries to meet the commitments in the 2012 Pacific Islands Forum Leaders' Gender Equality Declaration;
- Immediate support provides to the Government of Tonga in response to recent challenges to Lulutai Airways' aircraft and disruptions to air travel and continue to assist with the domestic air connectivity until 30<sup>th</sup> June 2023 in a partnership with Fiji Airways; and
- The Australian Government continuously awards Regional Scholarships and also supports Tonga USP Campus Scholarships.

**Government of New Zealand:** The government of New Zealand has been supporting key areas of the Government through governance institutions in Tonga, promoting stability and prosperity, supporting the public sector, and building a strong and resilient economy.

MFAT's assistance in the FY 2023 mostly pivots to respond to HTHH and COVID-19 through technical support, and supplies, alongside additional budget support. The Government of New Zealand will continue to contribute to the Climate Change Fund to support climate change responses. In addition to this, are the ongoing programs that are currently implementing through:

- Climate Resilient & Water and Sanitation aims to minimize harm from potential climate-related mobility, support disaster risk finance, improve ecosystem resilience and invasive species management, improve water infrastructure and management, and mainstream climate change and risk-based decision-making in governance systems;
- Tonga Health Workforce Activity, Medical Treatment Scheme, Drug and Alcohol Treatment & Tonga Central Pharmacy Warehouse support and develop Tonga's Health Workforce to deliver quality health services and improve health for Tongan communities;
- Tonga Police Development Program embeds investment in infrastructure and capability development delivered under the concluded Tonga Police Development Programme through people development, information management, corporate development, and intelligence and investigations;
- Tonga ICT Cable Redundancy - NZ financial contribution to resolving Tonga's need for ICT cable redundancy; and
- Scholarships Program – The Government of New Zealand provides both regional and Pacific scholarship awards.

**European Union:** The European Union (EU) Neighbourhood, Development and International Cooperation Instrument (NDICI) 2021-2027 program will start in FY 2024 engaging priority areas under the continued Budget Support implementation modality with Technical Assistance support for Capacity Building & Support to Civil Society Organizations. The EU will continue to support the Energy Sector by implementing the Tonga Energy Roadmap, co-financing the Nuku'alofa Network Upgrade, and supporting Civil Society.

**People's Republic of China:** The People's Republic of China has assisted the Government through agricultural livestock, the renewable energy sector, and infrastructure development. The Military Band Facility, Custom Inspection Equipment Project, and Heavy Plant Machinery Project have been completed during the current financial year.

The current projects under implementation are;

- China Aid Agricultural Technical Cooperation Phase VI assists with vegetable farming and livestock production;
- Sports Technical Assistance Project enables Tonga Sports' team would go to China for training. This project has been delayed due to COVID-19;

- Tonga High School Sports Complex preparatory work is currently on site and both materials and the construction team are in-country to start the project;
- The Fingerprint Examination Laboratory Project as PRC will donate some fingerprint laboratory equipment to Tonga to enhance the technical ability of criminal investigation together with staff training;
- Friendship Assistance from Chinese Dongguan City, Guangdong Province has provided solar street lights and will be handed over to Tonga recently.

The Royal Tomb Improvement Project is yet to be implemented as the feasibility study of this project has been completed.

**Government of Japan:** Japan's cooperation continues to support the Government through:

1. **Non-Project Grant Aid (NPGA)** programs are ongoing to support economic and social development efforts including poverty reduction. Technical equipment for Tonga Water Board, Waste Authority Ltd, Ministry of Fisheries have completed their exchange note in FY 2022 as assistances for recovery from the HTHH volcanic eruption and tsunami. Furthermore, provision of equipment for Anti-illicit Drugs was also signed with the Ministry of Revenue and Customs in September 2022. The asphalt distribution trucks, signed in 2020, were received in September 2022. Equipment of these four NPGAs is to be received in due course;
2. **Grant Assistance for Grass-root Human Security Project (GGP)** is an annual assistance committed to small grass-roots level community projects with several communities recently supported such as upgrading of Houma, Kanokupolu and Puke villages water supply system and construction of Maamaloa Primary School classroom;
3. **JICA General Grant Aid program** had financed the Nationwide Early Warning System (NEWS) Project which has completed and handed over to the Government in October 2022. The survey and design for the Fua'amotu International Airport upgrade are still ongoing;
4. **JICA Technical Cooperation Program:** The Capacity Development of ICU using Telemedicine Under COVID-19 Pandemic Project has completed and handed over the Government in September 2022. The Project for Pacific Co-learning towards Resilient Health System targeting NCD starts within 2023 for the next 5 years. The J-PRISM (Regional Waste Management) Project has completed Phase2 in March 2023 and the Phase3 targeting 3R+Return starts within this year to 2028. The Project for Capacity Building on Climate Resilience in the Pacific (PCCC) has completed in January 2023 and the survey starts for next phase in 2023. The project for Introduction of Hybrid Generation System in the Pacific Countries (Hybrid TC) completes in 2023. The Project for Improving Grid Operation under the Centralized Control Centre has approved in 2022 and implementing with TPL. The Breadfruit Project between MORDI and Tokyo University of Agriculture has completed in February 2023; and
5. **JICA dispatched the Debt Management Advisor** to the Ministry of Finance in February 2023. JICA continues to provide volunteers and specialists to assist the education, health and other sectors.

**United Nations:** Tonga is served by the UN Multi-Country Office (MCO) for the Pacific Islands that based in Fiji. The UN system aspires to a Pacific region where "All people, leaving no place behind, are equal and free to exercise their fundamental rights, enjoying gender equality and peace, resilient to the existential threats and living in harmony with the blue continent." There are currently 9 resident UN agencies and 20 UN staff based in Tonga to support the UN's work. This includes: FAO, WHO, UNICEF, IOM, UN RCO, UNFPA, UNCDF, UN-Women, and UNDP.

The Kingdom of Tonga became the first Pacific Islands Country and Territories (PICTs) under the United Nations Fiji multi-country Office to officially sign the UN Sustainable Development Cooperation Framework 2023-2027 on December 7, 2022 in Nuku'alofa. The United Nations Sustainable Development Cooperation Framework (UNSDCF) 2023-2027 replaced the UN Pacific Strategy 2018-2022. The new Cooperation Framework (CF) for the Pacific is based on 4 priority areas: i) Prosperity; ii) People; iii) Planet; and iv) Peace.

The UN's interventions in Tonga fall into two broad categories (i) interventions by operational agencies working closely with national counterparts and (ii) interventions that seek to include Tonga within both regional and international processes and bodies as part of an on-going commitment to South and Triangular Cooperation. This ability to merge national knowledge and operational experience with the technical expertise and access to international best practices represents one of the critical comparative advantages of the UN in the Pacific.

**Green Climate Fund:** While accreditation is underway for the GCF facility, the Government of Tonga receives financing through the international accreditation entities for the energy project, co-financing with other development partners.

There are five GCF Readiness programs aiming to enhance the capacities of national institutions to engage efficiently with the facility and also assist in adaptation planning and strategic frameworks development. In 2020, the National Adaptation Program was approved to strengthen MEIDECC (NDA) and MOF (delivery partner) capacity for effective adaptation planning.

**CROP Agencies:** The CROP Agencies assistance in the region is ongoing with technical assistance towards education, fisheries, climate resilient adaptation and mitigation such as SPREP and SPC.

**Other Donor Funds:** includes the Korean and India Grant that the Government receive on an annual basis. Government priorities of water tanks and affordable houses. The Government of Saudi Arabia donates a US\$5m to establish a National Museum for Tonga. The design phase is still on progress.

### 11.3 Development Expenditure by DAC by Location

A-Table 22: Development funded Project (Expenditure by DAC) (\$m) by location

DAC Sector	Actuals 2021/22 (\$m)	Budget Estimate 2022/23 (\$m)	Estimated Outturn 2022/23 (\$m)	Budget Estimate 2023/24 (\$m)	Projection 2024/25 (\$m)	Projection 2025/26 (\$m)
<b>Eua</b>	<b>2.4</b>	<b>7.6</b>	<b>4.9</b>	<b>8.3</b>	<b>7.9</b>	<b>2.6</b>
Economic Infrastructure and services	2.3	6.7	4.6	7.9	7.2	2.3
Multi Sector/Cross Cutting	0.0	0.0	0.0	0.0	0.0	0.0
Production	0.0	0.0	0.0	0.0	0.3	0.0
Social Infrastructure and Services	0.1	0.9	0.3	0.4	0.4	0.4
<b>Ha'apai</b>	<b>6.8</b>	<b>13.5</b>	<b>8.3</b>	<b>6.8</b>	<b>1.7</b>	<b>2.3</b>
Economic Infrastructure and services	6.3	12.9	8.2	6.6	0.8	1.8
Multi Sector/Cross Cutting	0.0	0.0	0.0	0.1	0.8	0.4
Production	0.0	0.0	0.1	0.1	0.1	0.1
Social Infrastructure and Services	0.4	0.6	0.0	0.1	0.0	0.0
<b>Nationwide</b>	<b>138.0</b>	<b>173.6</b>	<b>136.8</b>	<b>126.6</b>	<b>92.4</b>	<b>94.6</b>
Economic Infrastructure and services	81.7	103.6	62.7	50.1	17.7	16.0
Multi Sector/Cross Cutting	16.0	22.0	30.1	17.1	16.0	7.1
Production	3.5	12.1	4.6	14.7	13.3	7.6
Social Infrastructure and Services	36.7	35.9	39.4	44.7	45.4	61.3
<b>Niufo'ou</b>	<b>2.0</b>	<b>8.4</b>	<b>4.1</b>	<b>3.9</b>	<b>0.4</b>	<b>0.0</b>
Economic Infrastructure and services	1.9	7.6	3.9	3.6	0.0	0.0
Multi Sector/Cross Cutting	0.0	0.0	0.0	0.0	0.0	0.0
Production	0.1	0.1	0.1	0.3	0.4	0.0
Social Infrastructure and Services	0.0	0.6	0.0	0.0	0.0	0.0
<b>Nuatoputapu</b>	<b>0.9</b>	<b>3.1</b>	<b>2.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Economic Infrastructure and services	0.9	2.6	2.6	0.0	0.0	0.0
Multi Sector/Cross Cutting	0.0	0.0	0.0	0.0	0.0	0.0
Production	0.0	0.0	0.0	0.0	0.0	0.0
Social Infrastructure and Services	0.0	0.5	0.0	0.0	0.0	0.0
<b>Tongatapu</b>	<b>59.1</b>	<b>105.0</b>	<b>81.2</b>	<b>193.9</b>	<b>211.2</b>	<b>195.8</b>
Economic Infrastructure and services	35.0	34.6	27.8	87.0	110.5	129.2
Multi Sector/Cross Cutting	1.9	11.0	7.5	16.7	23.7	15.6
Production	3.5	11.1	8.1	10.3	4.7	2.7
Social Infrastructure and Services	18.7	48.2	37.7	79.9	72.3	48.2
<b>Vava'u</b>	<b>3.3</b>	<b>16.5</b>	<b>17.6</b>	<b>25.1</b>	<b>14.1</b>	<b>35.7</b>
Economic Infrastructure and services	2.2	11.8	14.0	23.7	5.4	6.5
Multi Sector/Cross Cutting	0.0	0.1	0.2	0.1	0.1	0.1
Production	0.0	1.2	0.1	0.0	0.5	0.0
Social Infrastructure and Services	1.0	3.5	3.2	1.3	8.1	29.1
<b>Grand Total</b>	<b>212.5</b>	<b>327.6</b>	<b>255.4</b>	<b>364.7</b>	<b>327.8</b>	<b>331.0</b>

Source: Ministry of Finance (MOF)

**ANNEX V: RECURRENT BUDGET PERFORMANCE IN FY 2022****12.1 Recurrent Budget Performance in FY 2022**

The balance at the end of FY 2022 was a deficit budget of **\$9.6m**, which was higher compared to the original estimated deficit budget of \$5.8m, and last year's performance (deficit of \$4.6m), mainly attributed to the challenging impacts of COVID-19 and the HTHH disaster.

*A-Table 23: Recurrent Budget Performance (\$m) in FY 2022*

<b>Recurrent Budget</b>	<b>Actuals 2020/21 (\$m)</b>	<b>Original Budget 2021/22 (\$m)</b>	<b>Actuals 2021/22 (\$m)</b>	<b>Variance (Budget – Actuals) 2021/22 (\$m)</b>	<b>Variance (Budget- Actuals) 2021/22 (%)</b>	<b>Y-o-Y Variance (\$m)</b>
<b>Revenues</b>	<b>339.0</b>	<b>370.4</b>	<b>350.2</b>	<b>-20.2</b>	<b>-5%</b>	<b>11.2</b>
Domestic Revenues	311.8	324.9	282.0	-42.9	-13%	-29.8
<i>Tax</i>	237.4	237.2	250.8	13.6	6%	13.4
<i>Non-Tax</i>	74.4	87.7	47.3	-40.4	-46%	-27.1
Budget Support	27.2	45.5	52.1	6.6	15%	24.9
<b>Expenditures</b>	<b>343.6</b>	<b>376.2</b>	<b>359.8</b>	<b>16.4</b>	<b>4%</b>	<b>16.2</b>
Wage Bill	155.8	176.2	166.9	9.3	5%	11.1
Operations	145.2	145.1	144.2	0.9	1%	-1.0
Assets	17.2	13.0	14.1	-1.1	-8%	-3.1
Debt	25.4	41.9	34.6	7.3	17%	9.2
<b>Balance</b>	<b>(4.6)</b>	<b>(5.8)</b>	<b>(9.6)</b>	<b>(3.8)</b>	<b>-66%</b>	<b>-5.0</b>

*Source: Ministry of Finance (MOF)*

Initially, the planned deficit for FY 2022 was at \$50.8m to be financed from a \$15.0m bond issuance, a \$30.0m loan from the IMF's Rapid Credit Facility (RCF) and the remaining balance from the government's cash reserves (\$5.8m). During budget execution, however, the government would prioritize pursuing efforts to improve domestic revenue mobilization, seek additional budget support and capitalize on the support provided from development partners to maintain and improve service delivery; despite challenges from the COVID-19 pandemic and the HTHH disaster.

Therefore, at the end of the FY 2022 performance from collection of tax revenues was positive, 6 percent or \$13.6m higher than the original target for FY 2022 and \$13.4m higher year-on-year. In addition, additional budget support was also obtained during the FY 2022, but the collection from non-tax revenues however was at a short-fall by \$40.4m from the original target due to the non-receipt of the \$30.0m loan receipt from the IMF.

Total expenditure on the other hand was lower by \$16.4m than the original estimates or an under-spending of the budget by 4 percent, reflected mainly in the wage bill (unfilled vacancies) and debt categories (deferral of debt repayment on the Exim-Import Bank loan under the G-20 Debt Service Suspension Initiative (DSSI). However, compared to last year, total expenditure was \$16.2m higher, attributed mainly to the response efforts of the government to HTHH and the first COVID-19 outbreak including overtime for the staff of the Ministry of Health, among others.

### 12.1.1 TAX REVENUES

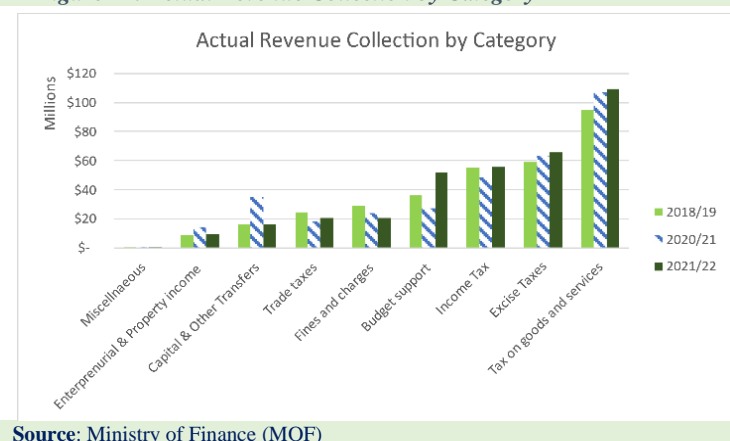
It is worth noting that the actual collection from all the tax-revenue categories except business import duties under Trade Taxes, had continued to increase year-on-year in FY 2022 and also higher than pre-COVID-19 levels despite the expected negative impact of COVID-19. It can be assumed that while the border and gathering restrictions contributed to a slower annual growth of collection in FY 2022, but it was not to the extent of decreasing the levels of collection. This implies the firm support of remittances and government's response efforts to support aggregate domestic demand through higher spending, while providing tax exemptions as necessary relief measures to affected businesses and individuals.

The Income Tax category also exceeded the \$50.4m target by 10.0 percent or \$5.2m in FY 2022, which was also higher year-on-year by 14 percent or back at pre-COVID-19 levels. The main attributions include better than expected performance from corporate taxes and withholding taxes from non-residents - reflecting effective collaboration between MORC and large businesses mitigates the negative impacts of COVID-19. In addition, receipts from government PAYE had also increased during FY 2022, in-line with gradual increases in the number of public civil servants.

The largest share of government tax revenues is sourced from the Tax on Goods and Services (TGS) category, particularly from consumption tax (CT). Overall, collection from TGS exceeded the target by 10 percent or \$10.0m, due to contributions of \$7.9m on from CT on imports and \$3.2m from CT on domestic consumption. Although, year-on-year the TGS levels was slightly higher by only 2 percent, it was 15 percent higher than pre-COVID-19 levels; in line with the increasing prices of imports

particularly on fuel, relatively more to the actual level of imports. The annual inflation rate at the end of FY 2022 was 11.2 percent compared to 1.8 percent at pre-COVID-19 times (FY 2019).

A-Figure 22: Actual Revenue Collection by Category



Source: Ministry of Finance (MOF)

### 12.1.2 NON-TAX REVENUES

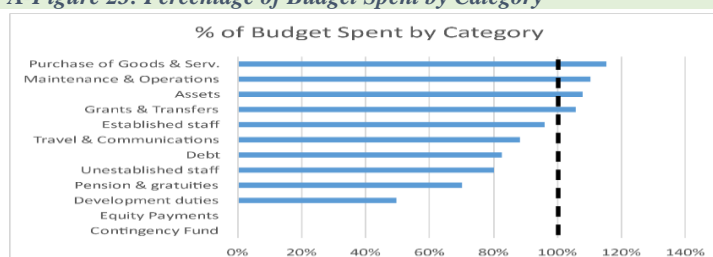
The collection from the Capital and Other Transfers category was the main contributor to the short-fall in total receipts in FY 2022 i.e, by \$30.4m or 65 percent from the original target due to the non-receipt of the \$30.0m loan from the IMF's RCF. Collection from Fees and Charges was short by \$7.4m or 26 percent from a target of \$28.3m, mainly related to the impacts of the prolonged COVID-19 restrictions including:

- Exports-related (ground handling agricultural exports, fishing licenses, bond rent, attendance fees);
- Tourism-related (whale watching, passenger service charges);
- Construction-related (sale of quarry supplies);
- Transport-related (motor vehicle licenses, upper air space);
- Immigration-related (medical certificates as requirements for visa applications);
- Rental of government assets (staff quarters, fisheries equipment, office space, aircraft); and
- School fees, as part of government's relief efforts to exempt school fee payments (in the first school term) in response to the COVID-19 pandemic.

### 12.1.3 EXPENDITURE BY CATEGORIES

The largest share of total expenditure in FY 2022 at 46 percent was from the wage bill related categories,<sup>17</sup> however four (4) spending categories had exceeded their original allocations, including Purchase of goods & services, Maintenance & operations, Assets and Grants & transfers.

A-Figure 23: Percentage of Budget Spent by Category



Source: Ministry of Finance (MOF)

**Purchase of goods and services (PGS)** - Spending exceeded target by 15 percent or \$8.2m in FY 2022, of which main contributors to this included office supplies (\$3.4m) – as MDAs responded to the HTHH disaster in cleaning up the ash-falls on the offices. In addition, was higher spending because of the first COVID-19 outbreak in terms of overseas medical treatment (\$2.9m), contract services (\$2.8m) and electricity bills (\$1.5m).

**Maintenance and Operations (M&O)** - In FY 2022, spending exceeded target by 10 percent or \$2.0m, mainly due to maintenance of buildings particularly following the damages by the HTHH tsunami and ash-fall including schools and government offices (Palace residence & office, Ministry of Fisheries); in addition to maintenance of quarantine facilities and that of other government offices (MTED, Police, MIA, PMO). Spending on freight was increased to assist exporters as government's assistance during COVID-19 and maintenances of vehicles and hire of heavy machinery.

**Assets** - Spending was higher than target by \$1.1m or 8percent, and higher by \$3.2m year-on-year mainly due to new technical equipment including MORC's purchases of sales register machines as part of its plan to improve tax compliance and revenue administration; and new vehicles including those for the Police force's efforts to combat illicit drugs. Furthermore, spending on new computers was also higher due to government's increasing use of technology to use virtual and remote means of working during the COVID-19 pandemic restrictions; and also spending on renovations and construction of new buildings in response to the damages by HTHH.

**Grants and Transfers** - Spending exceeded target by 6 percent or \$2.6m, mainly due to spending on government responses to HTHH and COVID-19, grant for sports activities (\$1.4m more than budget) including grant contributions to the Tonga Rugby Union and TASNOC, financial support for Tonga's national rugby and netball teams and some maintenances to the Teufaiva arena.

**Wage Bill** - Overall, spending on the established staff category was below target by 4 percent or \$6.2m, despite a significant under-spending of the salaries budget by more than \$13.0m<sup>18</sup>, of which was offset by over-spending on staff overtime by \$8.4m as a result of COVID-19 and HTHH response efforts. Incidentally, spending on unestablished staff was also higher than pre-COVID-19 levels by \$2.9m reflecting the increased hiring of contractual basis and daily paid workers to cater for gaps in hiring of permanent staff. The Government continues to manage wage bill to a sustainable level through a joint-subcommittee consisted of PSC, MOF and PMO (National Planning) to scrutinize new staff proposals to ensure MDAs are provided with their critical staffing needs to bridge human resource gaps and at the same time maintain the wage bill threshold.

<sup>17</sup> Established Staff, Unestablished Staff, Pension & Gratuities

<sup>18</sup> Salaries + Government Contribution to Retirement Fund

**ANNEX VI: TROPICAL CYCLONE (TC) GITA**

**13.1 TC Gita:** Of the planned 311 homes to be built under the TC Gita recovery efforts, 291 has been fully completed with the remaining 20 houses expected to be finished before the end of December, this year.

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

This is to provide relevant updates on the status of the Stimulus Package and the DFAT Funds (tagged to Business Recovery and Vulnerable Groups) as at the end of March 2023. In summary, the remaining balance is summarized below:

**14.1 Summary:****A. Stimulus Package (\$60.0m):***A-Table 24: Stimulus Package - Summary*

Funding Source	\$
1. Recurrent Budget	9,950,000
2. National Emergency Funds	3,800,000
3. Development Funds	11,400,000
4. Budget Support Pool Funds	34,850,000
<b>Total Stimulus Package</b>	<b>60,000,000</b>

Source: Ministry of Finance (MOF)

- **Remaining Balance at the end of March 2023: \$413,307**

**B. DFAT Funds (\$11.7m):***A-Table 25: DFAT Funds*

DFAT Grants	\$
1. Business Recovery	8,300,000
2. Vulnerable Groups	3,400,000
<b>Total DFAT Funds</b>	<b>11,700,000</b>

Source: Ministry of Finance (MOF)

- **Remaining Balance at the end of March 2023: \$2,808,280**
  - Business Recovery: \$2,164,380
  - Vulnerable Groups: \$643,900

**14.2 Details:***A-Table 26: Stimulus Package- Details*

	Cluster	Approved Budget (\$)	Reallocation Budget (\$)	Actual Payments (\$)	Commitment (\$)	Balance as at 31st March 2023 (\$)
1	Economic and Social Cluster	22,400,000	16,760,000	16,389,591	268,000	102,409
2	Education Cluster	1,000,000	1,250,000	1,250,000	-	-
3	Essential Services	1,000,000	1,000,000	999,968	-	32
4	Food Security and Livelihood	2,080,000	1,480,000	1,266,464	70,000	143,536
5	HN Wash Cluster	2,300,000	2,633,422	2,626,303	-	7,119
6	Logistic & Coordination	1,570,000	1,220,000	1,085,758	-	134,242
7	Safety and Protection	500,000	500,000	474,031	-	25,969
8	Shelter Cluster	4,000,000	10,006,578	9,959,237	47,341	-
	<b>TOTAL</b>	<b>34,850,000</b>	<b>34,850,000</b>	<b>34,051,352</b>	<b>385,341</b>	<b>413,307</b>

Source: Ministry of Finance (MOF)

**Stimulus Allocation by Clusters**

The balance to date, as in Table 1 above, reflecting the remaining balance: (i) **total actual** of \$34,051,352, **total commitment** of \$385,341 and the available total balance of **\$413,307** out of the approved budget (pooled funds) of \$34,850,000.

**a) Stimulus Balance as to date by Cluster:**

1. **Economic and Social Cluster** - \$102,409 (Lead by MOF);
2. **Food Security and Livelihood** - \$143,536 (Lead by MAFF and Ministry of Fisheries);
3. **HN Wash Cluster** - \$7,119 (Lead by Ministry of Health);
4. **Logistic Cluster** - \$134,242 (Lead by MEIDECC); and
5. **Safety and Protection** - \$25, 969 (Lead by MIA).

**Total Stimulus Balance as to date (with commitment): \$0.41m**

**b) Summary of Government pay-out on DFAT Funds towards COVID-19**

During the implementation of Stimulus Package (\$60m), additional grant support was received (FY 2021), totalled to AU\$7.0m (est. TOP\$12.0m) of which AU\$2.0m (TOP\$ 3.3m) was tagged towards the vulnerable groups and AU\$5.0m (TOP\$8.3m) was tagged to support Business Recovery activities.

**A-Table 27: DFAT Pool Funds:**

	Budget \$	Balance \$
Social Protection	3,400,000	643,900
Business Support (OSH)	2,700,000	1,613,080
Employee Support	2,200,000	551,300
<b>Total</b>	<b>8,300,000</b>	<b>2,808,280</b>

Source: Ministry of Finance (MOF)

**Total DFAT Grant: \$2.8m**

**(i) Social Protection**

- DFAT Grant (AU\$2.0m) or TOP \$3.4m tagged to support Vulnerable Groups.

**A-Table 28: Social Protection allocation and Balance to date end of March 2023**

Vulnerable Groups	Budget (\$)	Actual (\$)	Balance (\$)
Elderlies			
<i>one off @ \$100</i>	450,000	1,345,400	- 895,400
Disabilities			
<i>one off @ 100</i>	180,000	647,800	- 467,800
Poor Households	1,700,000	212,400	1,487,600
Social Caretakers Services	670,000	150,500	519,500
Community Policing	400,000	400,000	-
<b>Total</b>	<b>3,400,000</b>	<b>2,756,100</b>	<b>643,900</b>

Source: Ministry of Finance (MOF)

**❖ Total Actual Spending (March 2023): \$2,756,100**

- ✓ Elderlies – actual to date: \$1,345,400
  - 1<sup>st</sup> injection of support @ \$100: 4,563 beneficiaries (\$456,300)
  - 2<sup>nd</sup> injection @ \$200 (for Volcanic Eruption)
  - 3<sup>rd</sup> injection (2 lots of payment @ \$100)
    - Mid – April 2022 for 4,569 beneficiaries (\$459,900)
    - Mid – June 2022 for 4,322 beneficiaries (\$432,200)
- ✓ Disabilities - \$647,800
  - 1<sup>st</sup> one-off to 2,076 beneficiaries (\$207,600)



- 2<sup>nd</sup> one-off @\$200 (fund from Volcanic allocation)
  - 3<sup>rd</sup> one-off 2 lots of payments@\$100
    - Mid – April 2022 for 2,214 beneficiaries (\$221,400)
    - Mid – June 2022 for 2,188 beneficiaries (\$218,800)
  - ✓ Poor Households – actual \$212,400
    - Phase 1: 536 beneficiaries (\$212,400)
  - ✓ Social Caretakers Services – actual \$150,500
    - Expansion of social caretaker services to include ‘Eua and Ha’apai - \$50,500
    - Ma’a Fafine New Building – \$100,000
  - ✓ Community Policing - \$400,000
    - Grants to constituencies community policing
- Social Protection Remaining Balance - \$643,900**

## (ii) Business Recovery Assistance Program

- DFAT Grant support, AU\$5.0m grant (TOP 8.3m) tagged to business support program due to the impact of COVID-19.

### i. Business Support - Occupational Safety Hazard (OSH)

A-Table 29: DFAT – Business Support Allocation

COVID-19	Budget (\$)	# Application	Actual (\$)	Balance (\$)
Business Support (OSH)	2,700,000	1,589	914,500	1,613,080
Tourism (OSH)		57	125,500	
Business Licenses		816	46,920	
<b>Total</b>	<b>2,700,000</b>	<b>2,462</b>	<b>1,086,920</b>	<b>1,613,080</b>

Source: Ministry of Finance (MOF)

- ✓ 1,589 registered businesses: \$914,500
- ✓ 57 tourism businesses: \$125,500
- ✓ 816 businesses, renewal of business licenses: \$46,920
- ✓ Remaining Balance for Business Support (OSH) - \$1,613,080

### ii. Employee Support

A-Table 30: DFAT – Business (employee) Support Allocation

COVID-19	Budget (\$)	# Application	Actual (\$)	Balance (\$)
Employees	2,200,000	4107	1,648,700	
<b>Total</b>	<b>2,200,000</b>	<b>4107</b>	<b>1,648,700</b>	<b>551,300</b>

Source: Ministry of Finance (MOF)

- ✓ 4,107 employees: \$1,648,700
- ✓ Remaining Balance for Employee Support - \$551,300

## ACRONYMS

<b>ADB</b>	Asian Development Bank	<b>ESA</b>	Exchange Settlement Account
<b>AGO</b>	Attorney General's Office	<b>ESCAP</b>	Economic and Social Commission for Asia and the Pacific
<b>AIFFP</b>	Australia Infrastructure Financing Facility Program	<b>ESSP</b>	Economic and Social Stimulus Package
<b>AIP</b>	Aid Investment Plan	<b>EU</b>	European Union
<b>AML/CFT</b>	Anti-Money Laundering/Counter Financing Terrorist	<b>EXIM</b>	Export-Import Bank of China
<b>APG</b>	Asia Pacific Group on Money Laundering	<b>FAO</b>	Food and Agriculture Organization
<b>BBB</b>	Build Back Better	<b>FATF</b>	Financial Action Taskforce
<b>BESS</b>	Battering Energy Storage System	<b>FSL</b>	Food Security and Livelihood
<b>BHN</b>	Basic Human Needs	<b>FEC</b>	Foreign Exchange Control
<b>BSP</b>	Bank South Pacific	<b>FED</b>	Foreign Exchange Dealers
<b>Cat DDO</b>	Catastrophe Deferred Drawdown	<b>Fisheries</b>	Ministry of Fisheries
<b>CBD</b>	Central Business Unit	<b>FIU</b>	Financial Intelligence Unit
<b>CCT</b>	Conditional Cash Transfer	<b>FY</b>	Financial Year (July – June)
<b>CCTF</b>	Climate Change Trust Fund	<b>GAP</b>	Good Agricultural Practices
<b>CDs</b>	Communicable Diseases	<b>GCF</b>	Green Climate Fund
<b>CEO</b>	Chief Executive Officer	<b>GDL</b>	Government Development Loan
<b>CERC</b>	Contingent Emergency Response Component	<b>GDP</b>	Gross Domestic Product
<b>CNY</b>	Chinese Yuan	<b>GFS</b>	Government Finance Statistics
<b>COLA</b>	Cost of Living Adjustment	<b>GGF</b>	Government General Fund
<b>COVID-19</b>	Novel Coronavirus Disease 2019	<b>GGP</b>	Grassroots Grant Project
<b>CSOs</b>	Civil Society Organisations.	<b>GLRF</b>	Gita Loan Recovery Fund
<b>CSU</b>	Central Service Unit	<b>GPA</b>	Government Priority Agenda 2018-2021
<b>CT</b>	Consumption Taxes	<b>GPE</b>	Global Partnership of Education
<b>CTCN</b>	Climate Technology Centre and Network	<b>GOT</b>	Government of Tonga
<b>DAC</b>	Development Assistance Committee	<b>GRADE</b>	Global Rapid Post-Disaster Damage Estimation
<b>DFAT</b>	Government of Australia	<b>HIES</b>	Household Income Expenditure Survey
<b>DFS</b>	Digital Financial Services	<b>HMAF</b>	His Majesty's Armed Forces
<b>DOD</b>	Disbursed Outstanding Debt	<b>HTHH</b>	Hunga Tonga Hunga Ha'apai
<b>DPP</b>	Director of Public Prosecution	<b>IDA</b>	World Bank International Development Association
<b>DRR</b>	Disaster Risk Reduction	<b>IACP</b>	Integrated Age Care Project
<b>DSA</b>	Debt Sustainability Assessment	<b>IFAD</b>	International Fund for Agriculture Development
<b>DSSI</b>	Debt Service Suspensive Initiative	<b>IFMIS</b>	Integrated Financial Management Information System
<b>EAP</b>	East Asia and Pacific	<b>JICA</b>	Japan International Cooperation Agency
<b>ECE</b>	Early Childhood Education	<b>ILO</b>	International Labour Organization
<b>EDF</b>	European Development Fund	<b>IMF</b>	International Monetary Fund
<b>EDPO</b>	European Development Policy Operation	<b>IOM</b>	International Organization for Migration
<b>EE</b>	Energy Efficiency	<b>IURSP</b>	Integrated Urban Resilient Sector Project
<b>EMIS</b>	Education Management Information System	<b>JNAP</b>	Joint National Action Plan on climate change adaption and disaster risk management
<b>JPRM</b>	Joint Policy Reform Matrix	<b>NRBT</b>	National Reserve Bank of Tonga
<b>KPIs</b>	Key Performance Indicators	<b>NSCC</b>	National Security Committee of Cabinet
<b>KYC</b>	Know Your Customer	<b>NSP</b>	National Security Policy
<b>LA</b>	Legislative Assembly	<b>ODA</b>	Overseas Development Assistance
<b>MAFF</b>	Ministry of Agriculture, Food and Forestry	<b>OECD</b>	Organization for Economic Cooperation and Development
<b>MDAs</b>	Ministries, Departments and Agencies	<b>OET</b>	Overseas Exchange Transaction

<b>MEIDECC</b>	Ministry of Meteorology, Energy Information Disaster Management Environment and Climate Change	<b>PFM</b>	Public Financial Management
<b>MET</b>	Ministry of Education and Training	<b>PIC</b>	Pacific Island Countries
<b>MFA</b>	Ministry of Foreign Affairs	<b>PIRI</b>	Pacific Islands Regional Initiatives
<b>MFES</b>	Ministry of Fire and Emergency Services	<b>PMO</b>	Prime Minister's Office
<b>MIA</b>	Ministry of Internal Affairs	<b>PMS</b>	Performance Management System
<b>MLNR</b>	Ministry of Lands & Natural Resources	<b>PMU</b>	Project Management Unit
<b>MLW</b>	Micro-loans for Women	<b>POS</b>	Point of Sale
<b>MOF</b>	Ministry of Finance	<b>PPE</b>	Personal Protective Equipment
<b>MOH</b>	Ministry of Health	<b>PPP</b>	Public-Private Partnership
<b>MOI</b>	Ministry of Infrastructure	<b>PRC</b>	People's Republic of China
<b>MOJP</b>	Ministry of Justice and Prisons	<b>PREP</b>	Pacific Resilience Program
<b>MOP</b>	Ministry of Police	<b>PSC</b>	Public Service Commission
<b>MORC</b>	Ministry of Revenue and Customs	<b>RCP</b>	Regional Comprehensive Economic Partnership
<b>MORDI</b>	Mainstreaming of rural development innovation	<b>RDFD</b>	Resilience Development and Financing Division
<b>MOT</b>	Ministry of Tourism	<b>RIE</b>	Regional Implementing Entities
<b>MPE</b>	Ministry of Public Enterprises	<b>RMF</b>	Road Maintenance Fund
<b>MPS</b>	Monetary Policy Statement	<b>ROA</b>	Return of Asset
<b>MSME</b>	Micro Small and Medium Enterprises	<b>ROE</b>	Return of Equity
<b>MTED</b>	Ministry Trade and Economic Development	<b>RSE</b>	Recognized Seasonal Employment
<b>NAP</b>	National Action Plan	<b>S.A.M.O.A</b>	SIDS Accelerated Modalities of Action
<b>NAPID</b>	National Action Plan on Illicit Drugs	<b>SDG</b>	Sustainable Development Goals
<b>NBFIs</b>	Non-Bank Financial Institutions	<b>SDR</b>	Special Drawing Rights
<b>NCDs</b>	Non-Communicable Diseases	<b>SET</b>	Skills and Employment and Training
<b>NDICI</b>	Neighbourhood Development and International Cooperation Instrument	<b>SMA</b>	Special Management Areas
<b>NEER</b>	Nominal Effective Exchange Rate	<b>SNA</b>	System of National Accounts
<b>NEMO</b>	National Emergency Management Office	<b>SPA</b>	Specific Priority Areas
<b>NEWS</b>	Nation Wide Early Warning System	<b>SPAM</b>	Strengthening Protected Area Management
<b>NGOs</b>	Non-Government Organizations	<b>SPBD</b>	South Pacific Business Development
<b>NIIP</b>	National Infrastructure Investment Plan	<b>SPC</b>	South Pacific Community
<b>NNUP</b>	Nuku'alofa Network Upgrade Project	<b>SPREP</b>	Secretariat of the Pacific Regional and Environment Programme
<b>NPGA</b>	Non-Project Grant Aid	<b>SWSE</b>	Social Welfare Scheme for the Elderly
<b>NPL</b>	Non-performing Loans	<b>TAL</b>	Tonga Airport Limited
<b>NPUP</b>	Nukualofa Ports Upgrade Project	<b>TBS</b>	Tonga Bureau of Statistics
<b>NPV</b>	Net Present Value	<b>TC</b>	Tropical Cyclone
<b>OIREP</b>	Outer Island Renewable Energy Projects	<b>TC Gita</b>	Tropical Cyclone Gita
<b>OISES</b>	Outer Islands Solar Electrification Society	<b>TCC</b>	Tonga Communication Corporation
<b>PACER</b>	Public Access to Court Electronic Records	<b>TCIRP</b>	Tropical Cyclone Ian Recovery Projects
<b>PAMD</b>	Projects and Aid Management Division of the Ministry of Finance	<b>TCRTP</b>	Tonga Climate Resilient Transport Project Tropical
<b>PAYE</b>	Pay As You Earn	<b>TDB</b>	Tonga Development Bank
<b>PCCC</b>	Pacific Capacity Climate Resilience	<b>TDGSP</b>	Tonga Digital Government Support Project
<b>PCRAFI</b>	Pacific Catastrophe Risk Assessment and Financing Initiative	<b>TERM</b>	Tonga Energy Road Map
<b>PCRIC</b>	Pacific Catastrophic Risk Insurance Company	<b>TESA</b>	Tonga Education Support Activity
<b>PDRFP</b>	Pacific Disaster Risk Financing Programme	<b>TF</b>	Terrorist Financing
<b>PEFA</b>	Public Expenditure and Financial Accountability	<b>TFPP</b>	Tonga Fish Pathway Project
<b>PEs</b>	Public Enterprises	<b>THPF</b>	Tonga Health Promotion Foundation

<b>THSSC</b>	Tonga High School Sports Complex	<b>USD</b>	American Dollar
<b>THSSP</b>	Tonga Health Sector Support Program	<b>USP</b>	University of the South Pacific
<b>TIOE</b>	Tonga Institute of Education	<b>WASH</b>	Water Sanitation Hygiene
<b>TJSSP</b>	Tonga Justice Sector Support Program	<b>WB</b>	The World Bank
<b>TNIDP</b>	Tonga Nationals Illicit Drugs Policy	<b>WBG</b>	World Bank Group
<b>TNPS</b>	Tonga National Payment System	<b>WCCC</b>	Women and Children Crisis Centre
<b>TNU</b>	Tonga National University	<b>WHO</b>	World Health Organization
<b>TPD</b>	Total Public Debt		
<b>TPDF</b>	Transport Project Development Facility		
<b>TPL</b>	Tonga Power Limited		
<b>TREP</b>	Tonga Renewable Energy Project		
<b>TRIP</b>	Tonga Rural Innovation Project		
<b>TSD</b>	Tonga Statistics Department		
<b>TSDF II</b>	Tonga Strategic Development Framework II		
<b>TSRSP</b>	Tonga Safe & Resilient School Project		
<b>TTA</b>	Tonga Tourism Association		
<b>UN</b>	United Nations		
<b>UNEP</b>	United Nations Environmental		
<b>UNFPA</b>	United Nations Fund for Population Activities		
<b>UNICEF</b>	United Nations Children Education Fund		