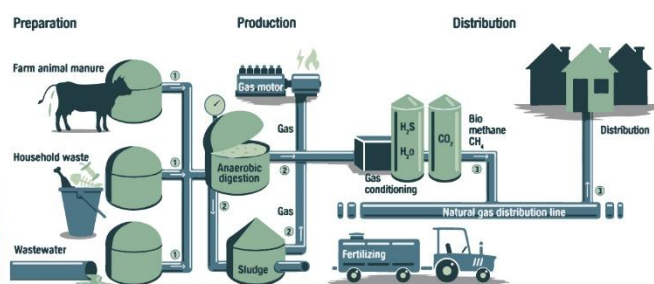




Kingdom of Tonga

BUDGET STATEMENT

For the Year Ending 30th June 2026



***Re-focusing Resource Allocation on Impactful Projects
for a Sustainable, Viable Economy***

Ministry of Finance
May 2025

Budget Statement FY 2026

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FOREWORD

I am delighted to present my first Budget in nearly a decade. I wish to acknowledge the efforts of the Ministers of Finance over the last decade. It has been a period marked by many challenges and difficult decisions; a period that has given me time to reflect on our country's development.

In recent years we have faced significant hurdles, with the multiple extreme natural events and the global pandemic having left lasting impacts on our society. In response to these challenges, we have demonstrated our common character and resilience, but while we can be proud of the way in which we have come together as a nation, we must recognize that the pandemic and the HTHH eruption have caused significant disruption to our economy, with several key sectors yet to fully recover from the damage caused.

We now face new global challenges as the post WWII economic order undergoes change. We are committed to close collaboration with our region and beyond to weather this storm and build further with those who share a commitment to a responsible, fair, inclusive and more equitable world order. A world that recognizes our diversity within our common humanity.

Over the longer-term, we have made significant progress in the reduction of extreme poverty, with further improvements in the broader measures of poverty, employment, and the human development index. Life expectancy is slowly rising, while we have also made significant progress in paying down our high external debt. However, much of these improvements have been driven by a large increase in remittances and external grants, with the data showing that real GDP has grown by an average of just 1.5 percent over the last 10 years, with little change in the structure of our economy and continued low exports.

The Government recognizes the struggles facing our economy and will seek to work in collaboration with all stakeholders to deliver the consistent economic growth necessary to lift the living standards of our citizens. We have identified three key objectives to guide our journey towards this goal, adopting national resilience, social sector development, and economic and public sector development as our guiding principles. Additionally, to ensure that our economic growth is sustainable, we will prioritize the efficient reallocation of funding to focus investment towards impactful projects.

With this in mind, the Budget Statement sets out the initiatives which the Government plans to advance over the coming fiscal year, gathered together under the common theme of:

“Re-focusing Resource Allocation on Impactful Projects for a Sustainable, Viable Economy”.

These initiatives are intended to advance our common goal of unlocking Tonga's economic potential by driving sustainable and resilient growth, increasing domestic employment, improving revenue collection, and ensuring efficient and effective service delivery.

Key initiatives include:

- Delivering vital infrastructure projects, that are more resilient, including Fanga'uta bridge and connecting roads, Vava'u hospital, renewable energy facilities including the bio-gas production project, Parliament House, the national museum, and aged-care centers, while delivering upgrades to health centers, roads, airports, and the outer island wharfs and jetties.

- Addressing private sector funding constraints by expanding access to finance, injecting additional funding into the government development loan facility provided by Tonga Development Bank, and exploring innovative initiatives to mobilize funds through expansion of the domestic bond market.
- Harnessing the benefits of our natural resources on land and in our oceans, supporting fisheries through investment in a new fleet of long-line vessels and backing our agriculture sector through the construction of a new packhouse and butchery facilities.
- Rebuilding our tourism industry by facilitating the development of the new Fua'amotu Resort, which will include a 5-star luxury hotel.
- Investing in our future by improving the quality of our education, with the development of the Queen Salote Nursing school, the renovation of primary schools' classrooms, providing financing for student loans, and providing targeted loans to non-government schools.
- Developing more sustainable and effective reforms to improve public service delivery, following the principles outlined in the Public Financial Management action plan, re-establishing the Public Training Institute to build capacity in our civil service, and establishing the mechanisms to make better use of technical and financial support to promote public and private sector productivity.
- Boosting our digital capacity by improving connectivity and developing innovative online e-govt systems (covering operations, licensing, payments, trade, education) to promote digital transformation.
- Increasing support to vulnerable groups by widening access to affordable housing, expanding social protection measures for the elderly, less advantaged groups, women, children, and poor households, and controlling the damaging impacts of illicit drugs.

These are a few of the critical and exciting initiatives which we will drive forward under this budget. However, to ensure this program is effective, we must ensure that we prioritize good judgement and consistency to realize our long-term vision for Tonga. This is particularly relevant as we are coming to the end of the Tonga Strategic Development Framework II, and will soon finalize the TSDF III which will guide our development over the coming ten years.

In preparing for this handover, it was my pleasure to chair the recent National Development Summit. This ended six months of extensive Kingdom-wide consultation on our progress to date and the lessons learnt from TSDFII. Fellow Ministers and I listened with care to participants' comments and concerns about the things that had worked well, areas where we can improve, and our overall development progress. I believe that the program of initiatives outlined in this budget will demonstrate our commitment to delivering on the lessons learned during the consultation period and through the previous TSDF, laying the foundations for a prosperous and successful future for the benefit all our people.

To realize this ambition, the improved cooperation and collaboration of all stakeholders will be of upmost importance in ensuring the effective implementation of our plans and activities, and to this end we seek the support of all Tongans in coming together to assist us in working towards our shared objectives.

We are also grateful for the continuous support of our development partners, the Tongan diaspora, and all who continue to lend a hand to help with the country's development agenda.

I look forward to your continuous support and cooperation with God's guidance and blessing always!

*We can do all things through Christ who strengthens us
Philippians 4:13*

God bless Tonga!

Hon. Dr. 'Aisake Valu Eke
Minister for Finance

1 BUDGET FY 2026: AT A GLANCE

1.1 Summary of FY 2026 Budget

The FY 2026 Budget will be guided by the theme:

“Re-focusing Resource Allocation on Impactful Projects for a Sustainable, Viable Economy”

As part of this ambition, the Government will target investment towards vital large-scale infrastructure projects, intended to stimulate private sector growth by increasing access to capital. In addition, the Government will prioritize allocative efficiency, redirecting budget resource allocations towards high impact initiatives while streamlining day-to-day operational spend. This strategy will see operational funding balance in FY 2026, although the Budget will run a deficit of \$29.1m in order to fund the program of infrastructure investment. This deficit will be funded in this fiscal year by the issuance of a \$30m new domestic bond.

The reallocation of funding will work in accordance with the TSDF II framework and the Government Priority Agenda. This will ensure a consistent approach, maximising the effectiveness of Government spending for the long-term benefit of Tonga.

Table 1: National Outcomes FY 2026 (\$m)

TSDF National Outcomes	Original Estimates FY2025 (\$m)		Revised Estimate FY2025 (\$m)		Estimates FY2026 (\$m)	
	Recurrent Budget	Development Budget	Recurrent Budget	Development Budget	Recurrent Budget	Development Budget
A. A more inclusive, sustainable and dynamic knowledge-based economy	171.9	3.6	159.3	5.1	207.1	8.1
B. A more inclusive, sustainable and balanced urban and rural development across island groups	14.0	20.0	13.0	25.0	16.0	23.0
C. A more inclusive, sustainable and empowering human development with gender equality.	136.7	106.4	141.3	74.8	161.7	48.8
D. A more inclusive, sustainable and responsive good- governance with strengthened rule of law	108.0	63.8	107.2	74.4	127.9	50.8
E. Provision and maintenance of infrastructure and technology	26.5	111.7	24.6	81.9	65.6	66.3
F. A more inclusive, sustainable and effective land administration, environment management and resilience to climate and risk	9.6	28.6	8.0	22.9	11.4	39.1
G. A more inclusive, sustainable and consistent advancement of our external interests, security and sovereignty	11.7	117.9	12.6	91.1	13.2	153.7
TOTAL	478.3	451.9	466.0	375.2	603.0	389.8

Source: Ministry of Finance (MOF)

1.1.1 Budget Overview

The total Government budget for FY 2026 is estimated at **\$992.8m** of which \$603.0m is the recurrent budget (61.0 percent), and \$389.8m is the development budget (39.0 percent). This represents an increase of **\$62.6m** (or 6.7 percent) on the FY 2025 total budget allocation. The budget consists of **\$748.9m** in cash (75.4 percent of the total) and **\$243.9m** of *in-kind* contributions (24.6 percent). The cash amount is forecast to increase by \$53.7m or 7.7 percent, while recurrent expenses will increase by \$124.7m, offsetting a \$71.0m decrease in development cash projects and revolving funds. The decrease in the development budget allocation for FY 2026 is mainly due to reallocation of revolving funds and additional budget support to be categorised under the recurrent budget. Additionally, various key donor-funded projects are approaching initiation, resulting in *in-kind* contributions rising to \$243.9m in FY 2026, a rise of \$8.9m.

Table 2: Total Budget Estimate FY 2026 (\$m)

Source of Fund	Original Estimates FY2025 (\$m)	Estimates FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)
Recurrent	478.3	603.0	563.6	571.5
Development	451.9	389.8	367.3	346.2
Cash	216.9	145.9	102.9	108.4
In-kind	235.0	243.9	264.4	237.7
Grand Total	930.2	992.8	930.9	917.7
Total Cash Appropriation	695.2	748.9	666.5	679.9

Source: Ministry of Finance (MOF)

1.1.2 Receipts and Payment

As the Government's budget will run a **\$29.1m deficit** in FY 2026, forecast payments exceed forecasted receipts by this value. Over the medium-term the Government aims to stimulate development in key economic sectors through the provision of targeted support and investment while managing operational expenses to maintain sustainable fiscal levels. This is forecast to result in an estimated \$11.0m surplus by FY 2028.

Table 3: Total Estimate Receipt vs. Payment in FY 2025 – FY 2028 (\$m)

	Original Estimates FY2025 (\$m)	Estimates FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)
RECEIPTS	915.2	950.2	924.7	913.6
Recurrent	463.3	560.4	557.4	567.4
Development	451.9	389.8	367.3	346.2
PAYMENTS	914.4	979.3	911.0	902.6
Recurrent	462.5	589.5	543.7	556.4
Development	451.9	389.8	367.3	346.2
BALANCE	0.8	(29.1)	13.7	11.0
FINANCING	(0.8)	29.1	(13.7)	(11.0)
Bond Receipts	15.0	43.6	19.9	15.1
Bond Payments	15.8	13.6	19.9	15.1
Cash reserves	0.0	0.9	13.7	11.0

Source: Ministry of Finance (MOF)

1.1.3 Key Initiatives

Under the Budget theme for this fiscal year, the Government is prioritizing the re-allocation of funding towards impactful projects which can drive private sector development and increase economic resilience. These are organized in accordance with the TSDF II structure to ensure long-term consistency in planning, and also according to the GPA to highlight specific projects which advance the Government's priority agenda. Key initiatives are as follows:

Table 4: Key initiatives.

Initiative	Government Funding (FY26)	Partner Funding (FY26) <i>Covers cash and in-kind</i>
Private Sector Development		
Government Development Loan (GDL) facility	\$56.4m	\$21.7m in-kind (ADB)
Private sector development	\$30.0m	-
GDL balance	\$10.7m	-
Non-government schools	\$10.0m	-
Student loan	\$4.5m	-
Micro-financing scheme (women-owned SME)	\$1.2m	\$21.7m in-kind (ADB)
ADB local currency bond	-	\$20.0m-\$200.0m in-kind (ADB)
Key economic sector initiatives <i>Agriculture Fisheries Tourism</i>		
Agriculture: Bio-gas production project	\$1.5m	\$20m in-kind (PRC)
Packhouse and butchery facility	-	\$0.8m in-kind (AUS)
Fisheries: Fleet of long-line vessels	-	\$30.0m in-kind (PRC)
Tonga Pathway to Sustainable Oceans	\$0.3m	-
Commercial fishing vessel management	\$0.5m	-
Tourism: Fua'amotu resort	\$0.1m	\$0.1m in-kind (USA: Private)
Infrastructure initiatives <i>Connectivity Energy Public Institutions</i>		
Connectivity: Fanga'uta SECURE bridge and connecting roads	\$20.0m	\$20.0m \$1m in-kind (ADB)
Road maintenance	\$20.0m	\$9.5m (WB)
Tonga Resilience Climate Project II	-	\$13.6m (WB)
'Eua wharf (total cost \$10.0m)	-	\$9.6m (WB)
'Eua airport runway (total cost \$7.3m)	-	\$4.0m (WB)
'Eua bridge (\$4.2m)	\$0.6m	\$2.2m (HTHH pooled funds)
Fua'amotu Airport Upgrade (\$40.0m)	-	\$1.4m (NZ)
Hawaiki project (Vava'u link, total cost \$75.0m)	-	\$0.1m in-kind (JAP)
		\$35.0m in-kind (AUS & NZ)
Energy: Nuku'alofa network upgrade project (TPL)	-	\$7.9m in-kind (ADB)
Grid enhancement for sustainable energy transition (TPL)	-	\$11.9m (AUS)
		\$0.5m in-kind (ADB)
Public Institutions: Parliament House	-	\$10m in-kind (AUS & NZ)
National museum	-	\$5.1m (Saudi Arabia)
'Atalanga residence	\$1.5m	-
Social sector initiatives <i>Health Equity National Security</i>		
Health: Health centers upgrades	\$10.0m	-
Vava'u hospital	\$7.0m	\$3.6m (WB)
Queen Salote Nursing school	\$6.5m	-
Aged-care centers	-	\$9.0m in-kind (ADB)
Equity: Affordable housing	\$6.8m	-
Social protection scheme (elderly & less advantaged stipend)	\$7.5m	-
Gender Equality and disability project (NGO / vulnerable persons)	-	\$2.6m in-kind (AUS)
National Security: Illicit Drugs Response Fund	\$5.0m	-
Psychiatric Rehabilitation centers	\$1.0m	-
Public sector initiatives		
Suva mission	\$2.1m	-
Public Training Institute	\$1.0m	-
Central Project Development Unit & Productivity Unit	\$0.1m	-
Digital Transformation	\$0.7m	\$0.7m in-kind (WB)
Climate resilience initiatives		
Insurance premium contributions to PCRIC	\$2.2m	\$4.0m in-kind (PCRIC, WFP, Global Shield)
Contributions increase from \$1.2m to \$2.2m		
Total payout increase from USD10m to USD17m		
National Unity		
National event (celebrating 150 yrs anniversary of the constitution)	\$1.5m	-
Total	\$152.3m	\$67.3m 162.7m in-kind¹

¹ADB local currency bond in-kind support included at \$20m for estimate.

Source: Ministry of Finance.

1.2 Summary of Fiscal Performance

Over the medium-term, the Government's **fiscal performance**, devised in accordance with the GFS framework, is forecast to consistently deliver a fiscal surplus, attributed to the maintenance of a stable fiscal position. This will see the Government's management of the economy supported by steady revenue growth, sustained grant inflows, and careful oversight of expenditure and capital investments.

Table 5: GFS Summary.

	Provision al FY2024 (\$m)	Original Estimate FY2025(\$ m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027(\$m)	Projection FY2028 (\$m)
Statement of Government Operations (\$m)						
Revenue	735.1	896.5	840.0	929.7	911.5	900.4
Taxes	300.0	327.7	335.2	347.1	379.3	390.9
Grants	386.9	514.2	447.7	509.2	449.5	427.5
Current	70.7	93.1	99.5	120.2	82.2	81.3
Capital	316.2	421.1	348.2	389.0	367.3	346.2
Other revenue	48.2	54.5	57.1	73.4	82.7	82.0
Expense	492.0	611.9	526.2	621.9	545.3	555.7
Gross Operating Balance	243.1	284.6	313.8	307.8	366.2	344.7
Net Acquisition Of Nonfinancial Assets	189.3	234.8	236.0	252.4	285.9	265.2
Fixed assets	188.1	230.3	232.4	248.3	261.6	245.9
Net Lending/Borrowing Requirement (Fiscal Balance)	53.9	49.8	78.0	55.5	80.4	79.6
Net Acquisition Of Financial Assets And Liabilities (Financing)	(53.9)	(49.8)	(78.0)	(55.5)	(80.4)	(79.6)

Source: Ministry of Finance.

Underpinning the positive fiscal outlook is a strong projection for **total revenue**, which is expected to increase from a revised estimate of \$840.0m in FY 2025 to \$929.7m in FY 2026, a rise of \$89.7m driven predominately by an increase in grant funding as well as a sustained rise in tax collection. **Total expenses** are also forecast to increase in FY 2026 however, rising from a revised estimate of \$526.2m in FY 2025 to \$621.9m driven by higher levels of operational spend related to investment in infrastructure projects. However, this rise is related to the high costs of project initiation, with Government expenditure expected to decline in FY 2027 and stabilize at \$555.7m in FY 2028.

The **Net Lending/Borrowing Requirement** surplus will fall in FY 2026, moving from a revised estimate of \$78.0m to \$55.5m. **Overall** though, ongoing financing needs remain manageable, with a consistent surplus in the net financing requirement indicating that the Government retains the capacity to maintain fiscal stability while sustaining operational and capital investments at current levels.

1.3 Underlying Economic Condition

The Tongan economy has performed positively over the previous year as it continues to recover from recent external shocks. While the lingering effects of the Covid-19 pandemic and the 2022 Hunga Tonga–Hunga Ha‘apai eruption and tsunami do continue to be felt, particularly with respect to disruption to the tourism sector and the damage caused to infrastructure, real economic growth of 2.5

percent is forecast for FY2025, with medium-term growth projected to reach an average of 2.8 percent by FY 2028.

Globally, the macroeconomic environment has created broadly beneficial conditions for Tonga over the previous year. Global inflation has fallen to 4.3 percent in 2024 and is expected to decline further to 4.2 percent in 2025 and to 3.5 percent in 2026. While this drop has been led by more developed economies, it is expected that developing economies will also see prices stabilize over time, while in the interim it has led to lower import prices for Tonga, in turn resulting in a dampening effect on domestic inflation.

In terms of growth, the IMF has reported that 2024 global aggregate real GDP growth hit 3.2 percent, with growth projected to further accelerate to reach an annual rate of 3.3 percent in both 2025 and 2026. While this is below the historic average annual growth rate of 3.7 percent (2000–2019), it does indicate that the global economy has broadly recovered from the twin shocks of the Covid-19 pandemic and the geopolitical conflict in Ukraine and the Middle East. While there are risks to the global recovery, including escalating trade and policy tensions, these have yet to feed through to significant impacts on growth prospects.

Table 6: Global Economic Indicators (2024).

Geography	Economic Indicators (year-end 2024)		
	Real GDP Growth (%)	Inflation (%)	Unemployment (%)
USA	2.8	3.0	4.1
China	4.8	0.4	5.1
Japan	-0.2	2.2	2.5
Euro Area	0.8	2.4	6.5

Source: WEO (Update), October 2024 and January 2025, IMF.

Within the Pacific region, the IMF expects strong economic performance over the medium-term, with forecast real economic growth of 4.6 percent in 2024 followed by 4.4 percent in 2025. Within the Pacific Islands, the growth trajectory has varied across countries, with Samoa a notable outlier having achieved 9.7 percent growth in FY 2024. However, Samoa's expansion is expected to revert to 2.5 percent by FY 2026, with Tonga's relatively stable growth trajectory broadly keeping pace with its' Pacific neighbors.

Of Tonga's development partners in the region, in FY 2025 Australia recorded positive real growth of 1.4 percent while New Zealand's growth stagnated, falling to 0.0 percent. The development contributions and trading relationships with these partners are vital for Tonga's economic success, and so growth expectations for these neighbors are highly important to the domestic economy.

Table 7: Pacific Economic Indicators (year-end 2024).

Geography	Economic Indicators (2024)		
	Real GDP Growth (%)	Inflation (%)	Unemployment (%)
Pacific Islands	4.2	4.4	Not reported
New Zealand	0.0	2.7	5.1
Australia	1.2	3.3	4.1

Source: WEO (Update), October 2024 and January 2025, IMF.

Domestically, Tongan real GDP growth is forecast to recover to reach 2.5 percent in the FY 2025 fiscal year, having fallen to 1.4 percent in the previous fiscal year. The previous year's slowdown was largely attributed to a contraction in the primary sector, where the El Nino weather pattern resulted in adverse weather conditions for fisheries and agriculture, depressing output for one of Tonga's key export sectors. Primary sector output has partially recovered over the FY 2025 financial year supporting the increased GDP growth, however infrastructure challenges in the tertiary sector continue to undermine efforts to attract higher levels of tourism.

Prior to the HTHH eruption and tsunami and the COVID-19 pandemic, the macroeconomic outlook for Tonga included a real GDP growth forecast of 3.0 percent in the medium-term. While the updated medium-term growth forecast of 2.8 percent falls slightly short of that mark, convergence to the pre-pandemic trend is a positive development. This recovery has primarily been driven by activity in the construction and tertiary sectors, with the commitment to large-scale infrastructure projects indicating a measure of confidence in the Tongan economy.

Table 8: Tonga Economic Indicators FY 2025 (latest data).

Geography	Economic Indicators FY2025		
	Real GDP Growth (%)	Inflation (%)	Unemployment (%) ¹
Tonga	2.5	3.3	2.3

Source: Ministry of Statistics.

Looking forward, while growth is expected to remain positive, the long-term challenges of climate change, the availability of labor, and particularly Tonga's large ongoing debt repayment obligations and constrained fiscal headroom all weigh on the nation's economic prospects. To mitigate these risks, the government is focused on revitalizing key sectors to lay the groundwork for long-term economic sustainability.

¹ Latest unemployment figures refer to 2023. This definition captures persons who did not work during the reference week, but looked for work and were available and willing to start work, in line with the International Labour Organization definition. Tonga also tracks a separate national definition captures persons who did not work during the reference week but were available and willing to start work, *regardless of looking for work*. Under this definition, unemployment was 11% as of the 2021 Census.

2 INTRODUCTION

The FY 2026 Budget is the first budget of the current administration. It is designed to deliver the administration's key objectives by supporting new investment initiatives in key economic sectors, re-directing budget resources to ensure the successful implementation of supporting strategies, and delivering a significant boost to economic growth. The Budget is inspired by the theme:

‘Re-focusing Resource Allocation on Impactful Projects for a Sustainable, Viable Economy’

The theme reflects the Government's intention to re-focus available resources towards the financing of sound, critical investments and projects, capable of delivering improved economic growth and a better living standard for all Tongans.

In keeping with the theme, the FY 2026 Budget will support the Government's agenda by delivering the investment required to achieve sustainable, equitable, and improved growth for the Tongan economy.

To achieve this ambition, the Budget strategy has been constructed to align with the Government's seven (7) priority areas, allowing targeted funding to be directed towards specific initiatives critical to Tonga's ongoing development. The Budget will provide funding for ongoing initiatives which further the development of key social sectors, including health and education, support initiatives protecting vulnerable and disadvantaged households from the supply of illicit drugs, deliver a program of public sector reform tasked with improving efficiency and service delivery, and continue to support vital programs and activities seeking to ensure that Tonga remains resilient to external disasters or shocks.

The successful implementation of the necessary policy and programs required to support the Government's agenda across the seven priority areas will require coordinated and collaborative partnership between Government and key stakeholders, including the private sector, civil society, and development partners. To further this process the Budget statement clearly outlines the Government's funding decisions for FY 2026, articulating the high-level prioritization and the detailed program-level decisions to aid alignment across all parties.

Moving beyond crises to deliver accelerated economic growth

Tonga's economic development has been hindered over recent years by the double shock events of the 2020 COVID-19 pandemic and the 2022 HTHH volcanic eruptions. Following these shocks, the domestic economy has gradually recovered, with encouraging signs of growth in key economic sectors. To support the recovery the Government has focused on re-directing resources towards the implementation of impactful projects, seeking to unlock Tonga's economic potential.

Although Tonga continues to face difficult moments in its ongoing economic development, with the risk of natural disasters, the impacts of climate change resulting in an increased prevalence of unfavorable weather conditions, and the uncertainty resulting from the policy agenda of the US administration all posing significant challenges, the domestic economy has improved and is projected to grow in the medium-term. This positive outlook is underlined by the Government's commitment to re-direct resources towards the implementation of impactful projects while seeking to support new investment initiatives with the potential to drive economic growth.

Looking forward, the economy is projected to grow by 2.5 percent in FY 2025, with a medium-term average annual growth rate of 2.8 percent forecast over the FY 2026 to FY 2028 period. This reflects a significant uplift relative to recent years, with 1.4 percent growth recorded in FY 2024 and 2.1 percent recorded in FY 2023. In recent history, the slowdown in growth was attributed to a contraction in the primary sector driven by the effects of El Nino, as well as the gradual recovery of the tourism sector following the Covid-19 pandemic and HTHH eruption. The positive growth forecast for FY 2025 and the medium-term reflects the expectation of increased construction activity, the continued recovery of the primary and tourism sectors, and the planned implementation of major infrastructures and investment activities.

We are grateful for the assistance of our development partners and the Tongan diasporas in supporting Tonga's economic recovery and ongoing development. We hope to continue to work together towards the implementation of our future development plans and initiatives.

Note:

- (i) All amounts stated in this document are in Tongan Pa'anga unless otherwise indicated.
- (ii) Numbers in tables may not sum due to rounding.
- (iii) Financial Year (FY) is read as, *for example*: FY 2026 = 2025/26 ending to the 30th of June 2026.
- (iv) \$xx m: the letter '*m*' refers to a 'million' or millions of Tongan Pa'anga unless otherwise indicated.

3 STRATEGIC FRAMEWORK AND PRIORITY AGENDA

3.1 Tonga Strategic Development Framework 2015-2025

3.1.1 Moving from TSDF II to TSDF III

TSDFIII: Tonga's Strategic Direction

The upcoming TSDFIII (2026-2036) marks a crucial phase in Tonga's development, emphasizing a people-centered approach that fosters collaboration among all stakeholders. It aims to build upon the lessons learned from TSDFII (2015-2025), particularly the need for stronger linkages between the TSDF and detailed sector plans, as well as delivering improved monitoring and evaluation. TSDFIII guides Tonga towards a future that embraces inclusivity and resilience across all areas of development. This approach ensures that people are not only at the heart of development process, but are also central to discussions, decision-making, implementation, monitoring, evaluation, and continuous learning, fostering improvement and change.

Lessons from TSDFII

The mid-term review and extensive consultations highlighted the need for a better and a more robust Monitoring, Evaluation and Learning (MEL) system both of the implementation processes and the results obtained. The National Development Summit emphasized the importance of an effective government system and the need to strengthen delivery and development capacity.

TSDFIII Moving Forward

TSDFIII will focus on:

- Government responsibility and accountability for public service delivery.
- A strong governance structure for the TSDF.
- Incorporating Tongan culture, research, innovation, demographic and migration trends into the existing national outcomes in the current TSDFII.
- Addressing the gap in the TSDF cascading structure.
- Investing in a more systematic and evidence-based system.
- Clear articulation and practical implementation.
- Establishing an MEL unit.

Structure of TSDFIII

The core TSDF will be user-friendly and available in both English and Tongan. It will guide stakeholders in setting priorities, planning, budgeting, and implementing projects, while ensuring consistency and collaboration. The Core TSDF will be supported by detailed technical annexes.

3.1.2 Response to Key Message from His Majesty

During both FY 2023 and FY 2024 parliament opening addresses, His Majesty, King Tupou VI, has emphasized four (4) critical priority areas which he sees are impacting the lives of His People, socially, economically and politically. These require attention and relevant actions from the Government. These priorities include (1) the rapid rise in the use of illicit drugs across the country; (2) social implication of

seasonal worker schemes; (3) dual role of government in the private sector businesses; and (4) accountability and transparency of government services.

1) The rapid rise in the use of illicit drugs across the country

The rise in the use of illicit drugs and the associated social implications remain a serious concern. In response, Government has led a National Symposium on a Whole-of-Society Approach seeking to bring the public together to find broadly applicable solutions. For the previous three years the Government has supported the implementation of the National Action Plan Initiatives as a response to Combating Illicit Drugs (NAPID). This includes controlling the supply and demand of illicit drugs and reducing the harm they cause. Ongoing initiatives include upgrades to the Prison Facilities in Tongatapu, Vava'u, and 'Eua to improve safety and the expansion of treatment and rehabilitation services for the reintegration of addicts.

2) Social implication of seasonal worker schemes

The increasing participation of Tongan citizens in the PALM and RSE schemes, offered by Australia and New Zealand, provide attractive income earning opportunities but can raise social challenges and impact the domestic labour market. To address this, the Government has engaged with Governments of Australia and New Zealand to explore improvements in the design of labour mobility schemes—such as promoting shorter contracts, enhancing pre-departure counselling, and providing reintegration support. At the same time, the government is addressing labour shortages in the domestic market, while also seeking to capitalize on the specialist skills of returning seasonal workers to reduce over-dependence on overseas work, and ensure that migration remains a choice, not a necessity. This balanced approach reflects our Pacific values of family, community, and shared prosperity.

3) Dual role of government in the private sector businesses

The extent of Government involvement in private enterprise has raised concerns regarding potential conflicts of interest given the Government also acts as the regulator. The Government has now moved to implement the necessary reforms to governance structures. Going forward, the Government will continue to provide support to empower private sector development and enhance competitiveness.

4) Accountability and transparency of government services

The Government continues to enhance anti-corruption measures via the recent establishment of the Anti-Corruption Commission, as well as the ongoing support of the Ombudsman's Office. Through these establishments, the Government seeks to provide mechanisms to increase public engagement, encourage the submission of public complaints, conduct awareness programs, and publish reports on their findings. Efforts are also underway to strengthen collaboration between the two institutions to ensure transparency and accountability in public service delivery and the use of public funds.

3.1.3 Funding by TSDF Organizational outcome

The table below displays funding according to TSDF organizational outcome. Aligning funding provisions with TSDF, as well as the Government's objectives and the GPA ensures that the Government retains a long-term perspective in the management of Tonga's budget, with resources directed towards impactful initiatives under a clear framework.

Table 9: Funding by TSDF Organizational outcome.

TSDF II Pillars	Original Estimates FY2025		Revised Estimates FY2025		Budget Estimates FY2026	
	Recurrent Budget	Development Budget	Recurrent Budget	Development Budget	Recurrent Budget	Development Budget
Economic Pillar	172.2	36.7	159.6	49.7	207.4	102.8
1.1 Improved macroeconomic management & stability with deeper financial markets	80.9	11.5	82.1	4.1	84.9	46.5
1.2 Closer public/private partnership for economic growth	70.4	0.1	56.5	1.5	102.1	17.1
1.3 Strengthened business enabling environment	6.4	-	7.1	0.3	7.6	-
1.4 Improved public enterprise performance	0.9	25.0	0.8	43.3	0.9	36.0
1.5 Better access to, and use of, overseas trade & employment, and foreign investment	13.4	0.1	13.1	0.5	11.8	3.2
Social Pillar	122.7	116.2	124.2	80.0	141.9	76.7
2.1 Improved collaboration with & support to civil society organization and community groups	10.3	0.6	10.4	0.2	15.9	2.8
2.2 Closer partnership between government, churches & other stakeholders for community development	7.7	13.7	7.7	8.2	10.6	4.4
2.3 More appropriate social & cultural practices	5.2	6.7	5.1	-	5.0	0.6
2.4 Improved education & training providing life time learning	48.7	66.8	48.4	56.5	50.8	41.5
2.5 Improved health care and delivery systems (universal health coverage)	36.5	18.1	38.2	10.4	35.9	12.8
2.6 Stronger integrated approaches to address both communicable & non-communicable diseases	8.5	3.8	8.7	2.6	18.2	3.8
2.7 Better care & support for vulnerable people in particular the disabled	-	5.8	-	1.3	-	9.9
2.8 Improved collaboration with the Tongan diaspora	5.9	0.8	5.6	0.7	5.5	1.0
Political Pillar	113.7	101.6	115.2	51.8	134.4	37.3
3.1 More efficient, effective, affordable, honest, transparent & apolitical public service focused on clear priorities	54.7	74.5	53.3	17.4	64.4	11.1
3.2 Improved law & order and domestic security appropriately applied	27.8	9.1	29.4	9.9	37.4	5.4
3.3 Appropriate decentralization of government admin with better scope for engagement with the public	-	-	-	0.3	-	-
3.4 Modern & appropriate Constitution, law & regulations reflecting international standards of democratic processes	14.0	10.3	14.2	0.5	14.3	11.0
3.5 Improved working relations & coordination between Privy Council, executive, legislative & judiciary	5.5	5.0	5.7	21.4	5.1	6.8
3.6 Improved collaboration with development partners ensuring programs better aligned behind government	4.9	2.7	5.8	2.4	6.3	3.0
3.7 Improved political and defense engagement within the Pacific & the rest of the world	6.8	-	6.8	-	6.9	-
Infrastructure and Technology Pillar	43.3	149.2	43.6	164.6	90.1	73.8
4.1 More reliable, safe and affordable energy services	1.6	33.4	0.9	46.8	1.1	9.1
4.2 More reliable, safe and affordable transport services	5.8	49.8	5.8	56.0	28.4	45.1
4.3 More reliable, safe and affordable information & communication technology (ICT)	1.0	0.7	0.8	2.9	2.7	0.7
4.4 More reliable, safe and affordable buildings and other structures	15.9	65.4	15.2	58.1	33.3	18.9
4.5 Improved use of research & development focusing on priority needs based on stronger foresight	19.0	-	20.9	-	24.7	-
4.6 More reliable, safe, affordable water supply and control, and sanitation services	-	-	-	0.9	-	-
Natural Resource and Environment Pillar	26.3	48.2	23.5	29.0	29.2	99.2
5.1 Improved land use planning, administration & management for private & public spaces	16.7	2.4	15.3	5.9	17.7	10.2
5.2 Improved use of natural resources for long term flow of benefits	4.8	7.6	4.0	4.9	4.9	58.3
5.3 Cleaner environment with improved waste recycling	0.2	3.5	0.1	1.0	1.8	1.1
5.4 Improved resilience to extreme natural events and impact of climate change	4.7	34.6	4.0	17.3	4.8	29.6
Grand Total	478.3	451.9	466.0	375.2	603.0	389.8

Source: Ministry of Finance

3.2 Government Priority Agenda

The Government Priority Agenda (GPA) is a subset of TSDFII which highlights the key priorities of the current administration². In the Budget Strategy document, the seven GPAs are grouped to align with the three high-level objectives of the current administration and are then linked to the key TSDF Organizational Outcomes by the number with which they are associated. In some cases, other

² The framework is updated periodically, and as such it may change over time in both format and content

Organizational Outcomes may have minor links. The level of priorities associated with each TSDF Outcome in Section 3 are determined in part by these GPAs.

Objective 1: National Resilience

GPA 1: Climate and Disaster Resilience

[4.4 resilient buildings; 5.4 climate change/disaster resilience]

GPA 2: Combat Illicit Drugs

[2.1 & 2.3 working with communities and churches; 2.5 improved health care; 2.8 collaboration with diaspora; 3.2 law and order; 3.7 regional cooperation]

Objective 2: Social Sector Development

GPA 3: Reduce Poverty and protect vulnerable groups

[2.1 & 2.3 working with communities and churches; 2.7 supporting vulnerable groups]

GPA 4: Quality Education

[2.4 improved education and training]

GPA 5: Quality and Affordable Healthcare

[2.5 & 2.6 health care, and addressing NCDs]

Objective 3: Economic and Public Sector Development

GPA 6: Realizing the Economic Potential to boost Growth

[all five 1.1, 1.2, 1.3, 1.4, 1.5 under the Economic Pillar, and much of Pillar 4 Infrastructure]

GPA 7: Public Sector Efficiency

[3.1 efficient public service; 3.3 appropriate decentralization; and 1.1 macroeconomic management]

4 BUDGET STRATEGY AND PRIORITIES

4.1 Budget Strategy and Theme

4.1.1 Budget Strategy and Theme Overview

The Government of Tonga's Budget Strategy seeks to deliver the funding required to support key outputs. These outputs are selected to advance the Organizational and National Outcomes identified within the TSDF II framework, the priorities in the Government's Priority Agenda (GPA) listed in *Section 4.2*, and aspects of the supplementary sector and district plans. Additionally, the Budget Strategy also considers the effect of recent economic, fiscal, and social developments in Tonga and the wider world, as covered in *Section 5*. To ensure clarity in the Government's prioritization and strategy towards this ambition, the budget theme for this iteration of the Government of Tonga's Budget Strategy is:

"Re-focusing Resource Allocation on Impactful Projects for a Sustainable, Viable Economy"

To realize this ambition, the Government aims to focus on improving both project delivery and accountability to further the impact of the TSDF. The challenges to delivering the budget theme are numerous and varied, particularly in relation to the deep-rooted structural issues facing the Tongan economy. To address these, the Budget Strategy for FY 2026 seeks to build upon the progress made across previous national Budget by providing sufficient support to allow the budget programs to address the challenges and realize a positive national impact:

"A more progressive Tonga supporting a higher quality of life for all."

While the Budget Strategy outlines key developments, initiatives, and policy supported by the Government in FY 2026, it is not intended to cover the entire scope of the TSDF. Equally, while the Budget Strategy represents the Government's intentions for the fiscal year ahead, unfolding structural challenges and resource limitations mean it is not always feasible to implement all reforms identified under the Priority Agenda within the timeframe suggested. As such, line ministries are encouraged to adopt a medium-term perspective in the submission of their corporate plans, while providing a realistic, cost-effective work plan for the fiscal year ahead.

4.1.2 Medium-Term Fiscal Strategy (FY 2026 – FY 2028)

Over the medium-term, the Government will seek to maintain the macroeconomic fiscal stability necessary for the effective implementation of the Budget Strategy. The three-year fiscal strategy for FY 2026 – FY 2028 aligns with the updated GPA priorities and the TSDF, with a focus on:

- i. Strengthening domestic revenue mobilization to maintain collection at or above 25 percent of GDP, through continued tax administration reforms, enhanced compliance, and improved tax collection.
- ii. Maintaining fiscal discipline while targeting an average surplus of 1–2 percent of GDP under the GFS framework by enforcing expenditure controls and aligning spending with GPA-prioritized areas.

- iii. Meeting debt repayment obligations and ensuring prudent debt management, implementing the reforms outlined in the Medium-Term Debt Strategy 2025–2027 and continuing to develop the domestic bond market to diversify financing sources and manage risks.
- iv. Enhancing public finance management systems and consistently implementing all aspects of the public financial management Reform Action Plan (2025–2029).
- v. Building resilience to shocks, natural disasters, and economic crises by incorporating climate-resilient debt instruments and exploring innovative financing options.
- vi. Supporting inflation management and cost-of-living measures through collaboration with the relevant stakeholders to monitor risks, explore subsidy arrangements, and promote renewable energy.
- vii. Prioritizing investment in key infrastructure and human development, including bridges, schools, hospitals, and expanding social protection programs.
- viii. Fostering partnerships with the private sector and communities, unlocking growth opportunities and delivering increased investment to support key sector initiatives.
- ix. Promoting environmentally responsible initiatives across key industries, including agriculture, fisheries, and tourism which can further diversify Tonga’s economy through sustainable growth practices.
- x. Strengthening fiscal-monetary coordination between Ministry of Finance and NRBT to avoid conflicting policy signals, aligning budget expansion and monetary tightening to reinforce macroeconomic credibility and avoid inflationary pressures. This will include collaboration across the following initiatives:
 - Expanding access to finance through a strengthened credit environment, fast-tracking the Credit Registry Bill, and promoting credit guarantees, improved land administration, and insurance access for growth sectors.
 - Deepening domestic financial markets, issuing sovereign and ADB-backed bonds, and developing a yield curve to attract investment.
 - Improving monetary policy effectiveness by redefining the policy interest rate framework, issuing NRBT notes, maintaining the SRD at 15 percent, and enhancing public communication and stakeholder engagement.

4.1.3 Revenue and Expenditure Measures in the fiscal strategy (FY 2026–FY 2028)

The effective management of public finances will be key to ensuring the availability and sustainability of the funding required to support the initiatives outlined in the Budget Strategy. Over the medium-term, Government revenue is anticipated to grow in line with economic activity, supported by ongoing compliance improvements.

On the expenditure side, the Government will prioritize the reallocation of investment towards impactful initiatives. Specific revenue and expenditure measures within the medium-term fiscal strategy include:

Revenue Measures

- The Electronic Sales Register System implementation will continue after the initial roll-out met the target population across Tonga resulted in a positive impact on the tax collected from consumption tax.
- The Government will continue to review the existing tax exemption framework to ensure that it continues to offer value-for-money to the Tongan public and remains fit-for-purpose.

- Review measures relating to non-tax revenue (covering fees and charges) and collaborate with the relevant ministry to explore revisions to pricing framework for aspects such as licensing arrangements.
- Continue the ongoing program of revenue policy reform and compliance strengthening:
 - The administrative programs supporting revenue management will be strengthened, with specific reference to the upcoming upgrade to the Revenue Management System which will align processes with broader Pacific standards, the Asycuda logistics system upgrade, and the streamlining of the customs duty and tax clearance processes.
 - Compliance with the Customs and Excise Adjustments applied to particular products (i.e unhealthy food) will be increased through more effective border management.

Expenditure Measures

- Expenditure Control Measures:
 - Streamline operational expenses (catering, overtime, overseas travel, new vehicles).
 - The civil servants' personal accident insurance trust fund will be established to provide alternative arrangements for coverage at a lower cost to Government.
- Government expenditure will be re-allocated towards identified Priority Areas to maximize efficiency:
 - Infrastructure projects will be prioritized, with a focus on delivering bridges, schools, and hospitals.
 - Increase investment in climate resilience, energy projects, and disaster recovery.
 - Continue social protection programs (e.g., expand elderly and less disadvantage group monthly stipends).
- Wage Bill Management:
 - Monitoring new recruitment, expanding the option to offer contracts where applicable.
 - Considering options to increase outsourcing to the private sector.
 - Remove allocated spending provisions for outdated unfilled vacancies.
- Debt Management Strategy:
 - Avoid new external borrowing, except borrowing which is highly concessional.
 - Focus on repaying existing debts.
 - Continue to develop the domestic bond market.
- Inflation and Cost of Living Adjustments:
 - Consider subsidies and/or control measures for essential goods and services, although remaining mindful of the need to balance risks given these may result in higher inflation.

4.2 Budget Priorities by TSDF Pillar

To demonstrate clear alignment to specific TSDF outcomes the priorities for the Budget Strategy over the three-year medium-term are set out under the five (5) Pillars of the TSDF II. For each section, the initiatives specifically relevant to each of the GPA items are highlighted, with a short discussion of the alignment between GPA items and the TSDF pillars also included in each section overview.

4.2.1 Pillar 1: Economic Institutions

Under the TSDF framework, the budget support provided for economic institutions aims to further Tonga's economic development by providing a stable financial system, delivering effective

management of Tonga's public sector enterprises, and supporting the development of key private sector industries through deeper public-private partnerships, the provision of an efficient business environment, and the facilitation of overseas trade and investment.

The key initiatives covered under the economic institutions pillar will primarily focus on GPA 6: Realizing the Economic Potential to boost Growth and GPA 7: Public Sector Efficiency.

GPA 6: Realizing the Economic Potential to boost Growth (also under Pillar 4).

- Provide \$40.0m in funding for key private sector businesses. This is in addition to the following funding provisions:
 - The \$10.7m in funding available through the Tonga Development Bank
 - The government development loan provision of \$4.5m for student loans.
 - The \$1.2m via the micro-financing scheme managed by the Ministry of Finance (MOF), with an additional \$21.7m supplied through the ADB.
- To support the private sector funding program, the ADB will introduce a local currency bond issue to absorb surplus liquidity, support ADB-funded development, and enhance domestic capital market development.
- The Government will support the fisheries industry through securing the delivery of 3 new long-line fishing vessels, in collaboration with The People's Republic of China. Additionally, the Government will continue to institute the Tonga Pathway to Sustainable Oceans program, supplying equipment and supplies for aquaculture hatchery, as well as support the commercial vessel management system.
- Continue ongoing support of the agriculture sector through the construction of packhouses and supporting facilities, as well as the construction of a butchery (abattoir).
- The Government will facilitate the private development of the new Fua'amotu Resort to boost the tourism sector, with the resort to include a 5-star luxury hotel.
- The Government will continue to review the existing tax exemption arrangements, with emphasis on the breakdown of tax expenditures by sector and tax type and the review and amendment of consumption tax, excise custom orders.
- Options to address identified issues relating to productivity and the effective use of aid in the Tongan economy will be explored, with the Government considering establishing two units: a Productivity Unit, and a Central Development Unit, with funding made available for several local hires in each agency.
- Introduce the consumer protection bill, designed to enhance consumer confidence with expected flow-on impacts to consumption.

GPA 7: Public Sector Efficiency.

- Implement fiscal discipline measures to ensure macro-fiscal stability, including:
 - *Revenue Measures*: updated revenue management system, implement upgrades to logistics systems, streamline customs duty and tax clearance processes, and increase compliance with customs and excise adjustment regulations.
 - *Expenditure Controls*: streamline spending on catering, overtime, and travel; improve asset and fleet management; explore alternatives to civil servants' personal accident insurance, remove allocated spending provisions for outdated vacancies, control new hires to the public sector, ensure the publication of quarterly debt reports, introduce the first annual borrowing/financing plan, and continue to advance fraud policy

4.2.2 Pillar 2: Social Institutions

Tonga's social institutions play a vital role in maintaining stability in civil society, advancing health and educational outcomes, preserving Tongan culture, and facilitating close connections with the wider Tongan diaspora. Across government priorities such as equitable development, partnership between Government and social institutions is of critical importance.

The key initiatives covered under the social institutions pillar will primarily focus on GPA 3: Reduce Poverty and protect vulnerable groups, GPA 4: Quality Education, and GPA 5: Quality and Affordable Healthcare. It also includes a supplementary focus on GPA2: Combat Illicit Drugs.

GPA 2: Combat Illicit Drugs (also under Pillar 3).

- Continue to support the initiatives introduced under the National Action Plan for Combating Illicit Drugs (NAPID), reducing drug supply and usage while expanding treatment and rehabilitation services for reintegration of addicts.

GPA 3: Reduce Poverty and protect vulnerable groups.

- Increases the monthly stipend payment received by elderly persons by \$10 as follows:
 - Ages 80+ will receive payments rising from \$110 to \$120/month;
 - Ages 66–79 will receive payments rising from \$90 to \$100/month; and
 - The number of beneficiaries will expand to include those at 66 years old from previously lower bound of 67 (FY 2025).
- Increase monthly stipend payments to disabled persons by \$10 as follows:
 - One form of disability – payments received will increase from \$60 - \$70 /month;
 - Two forms of disability - payments received will increase from \$90 - \$100/month; and
 - Three forms of disability - payments received will increase from \$110 - \$120/month.
- Oversee the construction of new Integrated Aged Care Centers, funded by ADB.
- Continue to subsidize electricity for consumption below 150kwt/month.
- Continue to widen access to affordable housing
- Ongoing work to construct a national social registry to protect vulnerable groups in the event of disaster or emergency.
- Kickstart the Tonga Australia gender equality project, advancing gender equitable in the community.

GPA 4: Quality Education.

- Inject a further \$10m to top up the Government Development Loan facility at the TDB to support non-Government secondary schools, as well as an additional \$4.5m for tertiary level education.
- Continue the safe and resilient schools project, upgrading of schools to be more resilient, improving school equipment, and developing curriculums and assessment supported by improve education information management system.

GPA 5: Quality and Affordable Healthcare.

- Continue to improve health standard through;
 - Rebuilt and renovation of the Vava'u hospital (\$7m Government funding in FY 2026, with \$3.6m from the World Bank)
 - Renovation of the health centers (\$10m) throughout Tonga
 - Construction of a new nursing school facility (\$6m)
 - Construction of a new psychiatric rehabilitation center (\$1m)

- Establish a domestic accident insurance trust fund for public servants to increase access to accident insurance products.

Other initiatives.

- Build the national museum in a resilient site to protect the country's historical artifacts and history to benefit both locals and visitors.
- Organize a national event celebrating the 150th anniversary of Tonga's constitution.

4.2.3 Pillar 3: Political Institutions

The performance of Tonga's political institutions is vital in maintaining public trust and support, while efficient management of government expenditure and effective service delivery is an essential component of the Government's responsibility towards the Tongan people.

The key initiatives covered under the political institutions pillar will primarily focus on GPA 2: Combat Illicit Drugs and GPA 7: Public Sector Efficiency.

GPA 2: Combat Illicit Drugs (also under Pillar 2).

- Conduct a policy review investigating the effectiveness of the NAPID initiatives to date, refine practices and guide sustainable and effective drug-related interventions.
- Continue to invest in the appropriate prison infrastructure, including women's cells, and construct new prison facilities in the outer islands as part of enforcement and protection strategies.
- Reallocate the \$5.0 m Illicit Drugs Response Fund (originally under the Ministry of Finance for FY 2025) to relevant MDAs in FY 2026—namely Police, Customs (Border Control), and Prisons—to operationalize anti-drug efforts through their budgets and corporate plans.

GPA 7: Public Sector Efficiency.

- Continue to support the overall public sector reform program to improve the effectiveness and efficiency of public sector service delivery:
 - Streamline the role of Government by providing better articulated mandates, outputs, organizational structures for MDAs, and improving HR management by expanding the option of contracts, improved performance assessments and considering options to outsource to the private sector.
 - Accelerate the implementation of the overall PFM reform under the PFM action roadmap.
- Re-establish the Public Training Institute, building public sector capacity through the provision of training to the civil service.
- Continue the expansion and mainstreaming of the Authorized Operator program to ensure effective procurement practices.
- Strengthen the Tonga Statistics Department in order to enable statistical surveys in a timely manner, assisting the Monitoring, Evaluation, and Learning system in its effective function.

Other initiatives.

- Build the Parliament House on a resilient site to support the better operations of the Legislative Assembly.
- New Tonga-Fiji diplomatic mission office in Suva, Fiji.
- New Construction of the 'Atalanga residence in Auckland.

4.2.4 Pillar 4: Infrastructure & Digital Transformation Inputs

The government is prioritizing investment in infrastructure and technology initiatives, furthering the Government's central ambition of enacting digital transformation across the public and private sectors. This program of strategic investment will improve supporting infrastructure, better connecting businesses and the wider public to unlock Tonga's economic potential.

The key initiatives covered under the infrastructure and technology inputs pillar will primarily focus on GPA 6: Realizing the Economic Potential to boost Growth with a little around GPA 1: Climate and Disaster Resilience.

GPA 1: Climate and Disaster Resilience (mostly under Pillar 5).

- Continue to progress the Hawaiki project, building a new international undersea telecommunications cable, the Tonga Hawaiki Branch System, which will connect Tonga to the existing Hawaiki Trans-Pacific cable system.
- Prioritizing resilient buildings and infrastructure across all sectors, able to better withstand increase in extreme events, and require all new government buildings are placed away from coastal flood prone areas.

GPA 6: Realizing the Economic Potential to boost Growth (also under Pillar 1).

- Prioritize the construction of the Fanga'uta Lagoon Bridge with ADB support with construction planned to commence by 2026. The Government have each allocated \$20m while the ADB have provided an additional \$20m under the FY 2026 Budget towards the overall project cost of US\$145m.
- Digital transformation is a Government priority for the coming fiscal year, with a focus on delivering increased integration of ICT into public services is a national priority. Future efforts will expand broadband infrastructure to underserved areas, develop a national digital payments system, digitize legacy Government systems, and build digital skills and capacity.
- \$4.6m in co-funding for the new 'Eua bridge, with the Government contributing \$1.0m.
- Provide \$1.5m in seed funding as part of an overall \$22m funding package to construct a new bio-gas production facility as part of extending alternative energy options, while supporting Tonga Power Limited to continue to operate a base load supply through a loan for power generator housing.
- Continue to support the Nuku'alofa network upgrade project (NNUP), improving the resilience of local power networks.
- The Government has taken a controlling interest in Lulutai Airlines and is seeking to stabilize and enhance domestic airline operations through improvements in aircraft reliability, route efficiency, and financial sustainability via public-private partnerships.
- Supporting the continued upgrades to Fua'amotu International Airport and outer island airports. Further terminal expansion and navigation systems enhancement is planned.
- Continue the program of investment in urban and rural road networks, resurfacing key urban arteries and enhancing rural access.
- Support continued port upgrades at Queen Salote Wharf as well as further upgrades to the outer island's wharves, aiming to enhance security, connectivity, and resilience.

Other initiatives.

- Continue to implement reforms to the energy sector to diversify energy supply under the Tonga Energy Roadmap.

4.2.5 Pillar 5: National Resources & Environment Inputs

Tonga's natural environment offers significant potential for economic development, with vast fishing grounds supporting key industries and beautiful landscapes drawing international tourism. However, Tonga's geography also places it at significant risk from climate deterioration, with Government initiatives focused on the protection and management of natural resources and effective mitigation of environmental and disaster-related risks.

The key initiatives covered under the natural resources and environmental inputs pillar will primarily focus on GPA 1: Climate and Disaster Resilience.

GPA 1: Climate and Disaster Resilience (a little under Pillar 4).

- Continue to implement the Disaster Risk Management Act 2021 through the National Disaster Risk Management Office, incorporating reviews of past responses, lessons learned, and better use of humanitarian resources.
- Support the ongoing implementation of the multi-hazard early warning system policy.
- Enhance disaster financing mechanisms, including the ADB's contingency disaster financing and the World Bank's catastrophe deferred drawdown option.
- Increase government's insurance premium contributions to Pacific Catastrophe Risk Assessment and Financing Initiative (PCRIC) to increase potential insurance drawdowns in the event of a disaster.
- The Government will seek to address global climate policy shifts, such as reduced international commitment, by collaborating with regional partners to lobby for climate resilience, while also enhancing Tonga's self-reliance through the program of infrastructure development outlined.

5 ECONOMIC AND SOCIAL DEVELOPMENT OUTCOMES AND OUTLOOK

5.1 Global and Regional Development

5.1.1 Global Highlights

The global economy has held relatively steady over the previous year to early 2025, with the post-pandemic inflation rate trending down across the globe. Global growth has been positive albeit muted, with the IMF recording real global GDP growth of 3.2 percent in 2024.

Looking forward, the IMF forecast real GDP growth to increase marginally to reach 3.3 percent in both 2025 and 2026. In terms of inflation, the IMF expects global headline inflation to decline to 4.2 percent in 2025, before falling further to 3.5 percent in 2026. However, there are serious signs of headwinds emerging, particularly in the form of increased disruption to trade via the imposition of tariffs and other barriers, while geopolitical conflict, weak growth, and potentially increasing inflation could all weigh heavily on global economic prospects in the coming years.

5.1.2 Regional Highlights

Regional Growth Outlook

The IMF has raised its forecast for regional growth in 2024 to 4.6 percent (up from 4.5 percent in April), mainly due to strong economic performance in the first half of the year. The region is expected to contribute about 60 percent of global growth in 2024.

Australia-Tonga Economic Relations and Growth Outlook

Australia remains a key trade and development partner for Tonga, with a large Tongan diaspora contributing to remittances and short-term workers schemes. Australia experienced moderate economic growth of 1.4 percent in FY 2025, with a projected increase to 2.4 percent in FY 2026. This steady expansion aligns with broader Pacific economic trends, though external risks, such as global trade tensions, may impact future stability and suppress these initial forecasts. Australia continues to be a major source of development assistance to Tonga covering a range of areas.

New Zealand-Tonga Economic Relations and Outlook

Economic growth has stalled in New Zealand, falling to 0.0 percent in 2025. However, New Zealand remains a vital trade and development partner for Tonga, also with a larger Tongan diaspora, supporting economic stability through trade, remittances, short term worker schemes and aid. Bilateral trade consists primarily of agricultural exports from Tonga and manufactured goods from New Zealand. Development assistance from New Zealand, particularly in infrastructure, education, and disaster resilience, plays a key role in Tonga's economic sustainability.

5.2 Recent Economic Outcomes & Outlook for Tonga

5.2.1 Domestic Economy Overview

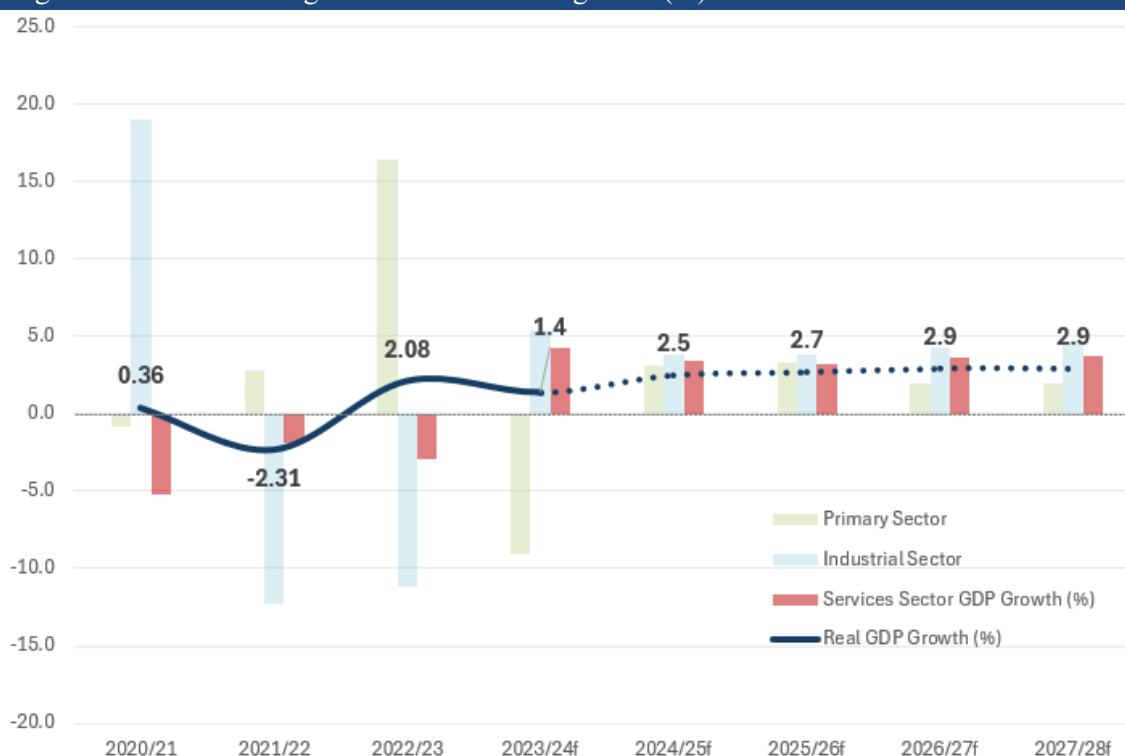
Tonga economy is small, structurally constrained, and heavily reliant on remittances, foreign aid, and imports, making it highly sensitive to external shocks.

In FY 2024 real GDP growth is projected to decline to 1.4 percent, which represents a significant reduction from the 2.1 percent growth recorded in FY 2023. This drop is primarily attributed to challenging environmental conditions such as those associated with the El Nino weather pattern, and ongoing challenges in the tourism sector, particularly those affecting accommodation and related services.

Economic growth is expected to rebound to 2.5 percent in FY 2025, driven by increased activity in construction, services, and manufacturing sectors, although the primary sector remains below expectations. Remittances, which account for over 30 percent of GDP and are a primary financial support for households, provide vital economic support.

Global risks, including “trade war” and global conflicts such as the war in Ukraine and the Gaza crisis, pose threats to commodity prices and economic stability, which are particularly relevant given Tonga’s dependence on imported goods. Additionally, the ongoing expansion of labor mobility programs to Australia and New Zealand is depleting the domestic labor force, placing further strain on local economic activity and household financial security amid rising living costs despite the benefits from the income earned by workers on these schemes.

Figure 1: Headline GDP growth & Sector GDP growth (%)



Source: Ministry of Finance/ Statistics Department

Over the medium-term, growth is projected to average 2.8 percent, supported by ongoing recovery efforts in the primary and tourism sectors and planned development projects intended to increase economic productivity, though fiscal space remains tight due to significant debt repayment obligations. However, issues such as the limited labor supply, underdeveloped tourism infrastructure, and high exposure to climate-related disasters will continue to act as major constraints to economic development.

In response, the Ministry of Finance, in partnership with the NRBT, will issue \$30m of new domestic bonds, in addition to the roll-over of \$13.6m additional bonds. The ADB will also issue local currency bonds, with both initiatives aiming to build an active domestic financial bond market and provide alternative financing options for both the government and private sector. The Government is also exploring options to institute a domestic stock market to provide equity financing for businesses. Looking forward, to secure long-term, sustainable growth, Tonga must implement policies focused on economic diversification, climate adaptation, infrastructure development, and private sector revitalization to build a more self-reliant and resilient economy.

5.2.2 Primary Sector

The primary sector is expected accounted for an estimated 19.6 percent of Tonga's GDP in FY 2025³, although this has declined in recent years due to natural disasters and adverse weather conditions.

The primary sector is expected to register real growth of 3.1 percent in FY 2025, marking a notable recovery from the negative real growth of 9.0 percent recorded in FY 2024. This rebound is primarily attributed a shift in the El Niño weather cycle, with improved conditions leading to an increase in the overall volume of domestic agricultural production and higher agricultural and fisheries exports accordingly.

Looking ahead, the primary sector is projected to record real growth at a moderate annual average rate of 2.4 percent over the medium-term. However, growth remains contingent on favorable weather conditions and the absence of severe natural disasters, with the sector remaining vulnerable to the effects of natural disasters, climate change, and external shocks. Additionally, labour mobility challenges continue to pose risks to productivity.

5.2.3 Industrial Sector

The industrial sector is expected accounted for an estimated 14.1 percent of Tonga's GDP in FY 2025, with a positive medium-term outlook ahead.

The industrial sector remains a vital pillar of Tonga's economy, contributing to national GDP through industries such as construction, mining and quarrying, manufacturing and electricity, and water supply. Comparing FY 2024 to FY 2025, there has been a notable improvement in the growth evidenced across sectors, providing the basis for a positive outlook continuing into FY 2026. This growth signals a restored economy, driven by construction development, enhanced economic resilience, and increased energy demand.

The overall industrial sector is projected to grow at an average rate of 4.2 percent over the medium-term covering FY 2026 to FY 2028, driven by the productivity and agglomeration benefits expected to result from investment in major infrastructure projects such as the Fanga'uta Bridge, Parliament House, Tonga National Museum, and Vava'u Hospital as well as investment in renewable energy. The Government is also exploring potential initiatives to boost domestic businesses through amendments to donor and Government procurement policies, which will look to redirect purchases to local businesses where suitable. Additionally, Government will review options to support the consolidation of domestic industry, seeking to encourage collaboration between local small enterprises to drive standards and encourage growth. Finally, the Government will also enact policies promoting local industries through

³ Sector growth contributions do not sum to 100% due to subsidies, bank service charges, and taxes.

the private sector development funding, with an increased focus on value-add production which could provide a further boost to the economy, particularly in the manufacturing sector.

5.2.4 Tertiary Sector

The tertiary sector is expected accounted for an estimated 47.9 percent of Tonga's GDP in FY 2025, continuing its' growth trajectory albeit at a moderate pace.

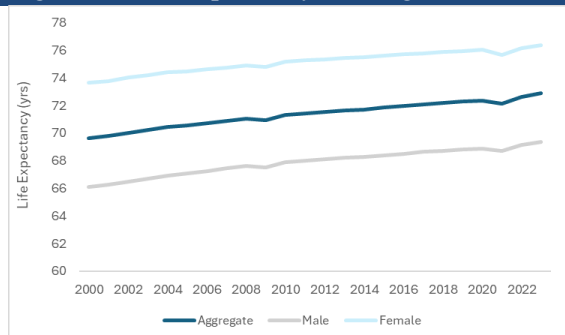
Following a 3.4 percent expansion in FY 2024, the sector is expected to grow at an annual average rate of 3.5 percent over the medium-term, driven by the strong performance of key sub-sectors, particularly the wholesale sector. The Government has also committed to a review of the Tongan retail industry, looking to support Tongan-owned businesses in the domestic market. However, downside risks remain, including external supply shocks and vulnerability to natural disasters, which could impact overall sector performance.

5.3 Social and Community Outcomes

5.3.1 Health

Investment in the promotion of positive health sector outcomes remains a vital pillar of Tonga's ongoing development. As a signatory of the UN Sustainable Development Goals (SDGs), Tonga has made notable strides in improving health services. The latest SDG snapshot⁴ indicates that on key measures such as the neonatal mortality rate, the under-five years old mortality rate, and the incidence of tuberculosis significant strides have been made. Challenges relating to both non-communicable and communicable diseases remain however, and tackling these effectively will be key to making further progress towards improved health outcomes.

Figure 2: Life Expectancy in Tonga⁵.

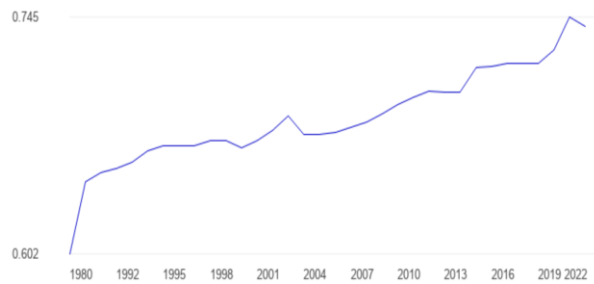


Source: World Bank. (2022 & 2023). Life Expectancy at Birth – Tonga.

The progress made towards more equitable health outcomes is illustrated by the rise in life expectancy, with World Bank data in Figure 2 showing that aggregate life expectancy has increased by 3.3 years since 2000. Life expectancy did divert from trend during the Covid-19 pandemic, but otherwise the data indicates broadly consistent improvements year-on-year. It is however notable that male life expectancy has consistently lagged female life expectancy over this period, with a gap of 7.0 years in 2023 demonstrating only marginal improvements when compared to a gap of 7.6 years in 2000.

⁴ Source: SDG Dashboard: <https://dashboards.sdindex.org/profiles/tonga>

⁵ Source: World Bank: <https://data.worldbank.org/indicator/SP.DYN.LE00.IN?locations=TO>.

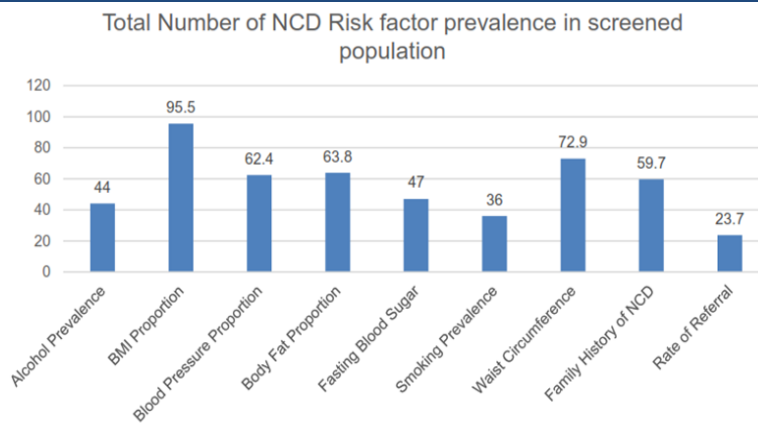
Figure 3: Human Development Index.

Source: World Bank. (2022 & 2023). Life Expectancy at Birth – Tonga.

In terms of the Human Development Index, a broad measure which encapsulates three key dimensions of human development: health, knowledge, and a decent standard of living, Tonga has improved over recent history. However, this measure did indicate a marginal decline in living standards during the Covid period, and so close monitoring will be required to evaluate whether this returns to trend in future.

Non communicable diseases (NCDs) such as diabetes are a major public health concern in Tonga, with the Government seeking to accelerate progress toward achieving health-related goals by targeting areas that contribute to NCD risk factors, such as unhealthy diets, physical inactivity, smoking, and excessive alcohol consumption. The Government has introduced policies such as increased taxation on tobacco, alcohol, and sugary drinks to curb the growing NCD crisis. Additionally, funding has been directed towards public awareness campaigns designed to encourage healthier lifestyles, better diets, and increased physical activity.

Additionally, the Tonga Health Sector Support Program 3 (THSSP) has been launched to assist in the implementation of key policies and frameworks within the health sector, including the Tonga Strategy for the Prevention and Control of Non-Communicable Diseases 2021-2025. It plays a pivotal role in supporting Tonga's efforts to prevent and reduce NCDs by providing professional development and training for doctors and nurses, as well as procuring essential medical equipment and pharmaceuticals.

Figure 4: NCD risk factor.

Source: Ministry of Health.

WHO, and UNICEF. Longer-term efforts to improve Tonga's resilience to communicable disease continue, such as the assessment of the Sewerage and Water System at Vaiola Hospital conducted in August 2023.

In addition to the prevalence of NCDs, Tonga is also vulnerable to select communicable diseases, as illustrated by a recent outbreak of dengue fever. In response to the outbreak the Ministry of Health is prioritising testing for moderate to severe cases. Additional measures include case investigation, vector control in high-risk areas, and public awareness campaigns, with support from Government ministries, NGOs,

5.3.2 Education

Over recent years, Tonga has shown marked improvements in promoting accessible education. As of 2021, the basic literacy rate for Tonga was reported at 99.4 percent⁶, which is higher than the East Asia and Pacific literacy rate of 96.4 percent. Regarding the accessibility of education, the Ministry of Education and Training's Education Sector Analysis indicated a positive trend in enrolments, with total growth of 6 percent in 2022, alongside a marked increase in Early Childhood Education (ECE) and primary level enrolments. In parallel, the supply of teachers increased by 12 percent in 2022, with pupil/teacher ratios of 22:1 for primary schools and 14:1 for secondary schools.

The positive outcomes in education accessibility may be attributed to policy reforms such as the removal of selective exams, curriculum revisions to improve performance in mathematics and science, and increased equity between government and non-government schools, with recent initiatives such as the establishment of the Tonga National University (TNU) expected to continue to drive improvements in educational outcomes. These developments have been achieved despite Government expenditure on education remaining relatively stable at around 6 percent of GDP or around 15 percent of public expenditure. However, it is notable that when combined with health (*social services*), this sector does historically account for the largest share of the government budget.

While the headline figures underline the positive steps Tonga has made in education, further investigation underlines the progress still required. Particularly, further work is needed to resolve the issue of gender disparities in enrolments and the barriers that restrict the retention of students from lower income families. An analysis of current Ministry of Education and Training data indicates that:

1. *Male students and those in lower wealth quintiles are less likely to complete secondary education.*
2. *The conversion rate from secondary level to post-secondary level is very low.*

Figure 5: Enrolments by Education level 2022.



Source: Ministry of Education.

These issues arise from cultural, social, and economic factors that begin much earlier in the school system. Most male students drop out due to economic pressure to work, with other barriers to enrolment being fees, selective examinations, and the quality and relevance of learning outcomes. Furthermore, there are 2.4 times more girls than boys in upper secondary level (form 7). In post-secondary, within the low transition rate to university, it is apparent that TVET programs are comprised of mainly male students due to their lower academic requirements, pinpointing a major problem around gender inequities and education quality.

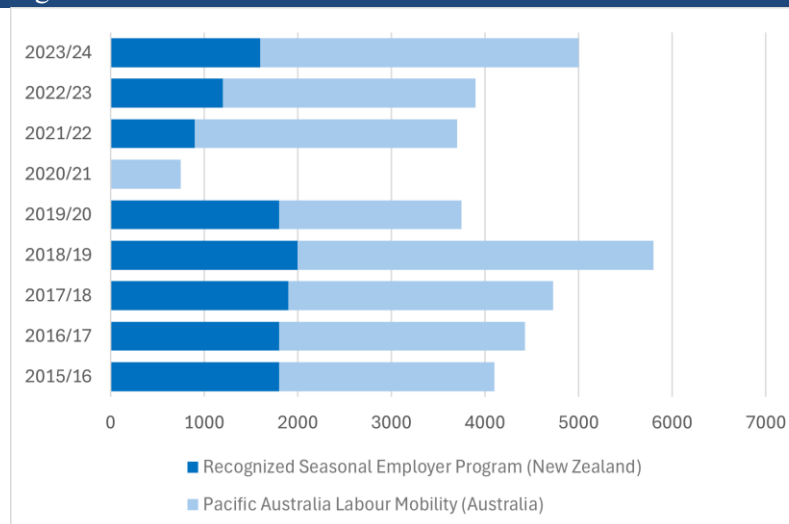
⁶ World Bank: <https://data.worldbank.org/indicator/SE.ADT.LITR.ZS>

Despite these challenges, the outlook for the education sector is broadly positive, with the Ministry of Education and Training's involvement with the Global Partnership for Education (GPE) and the signing of the System Transformation Grant (STG) allowing for initiatives such as the development of classroom libraries, the introduction of school counsellors, and the promotion of national reading in-service programs, important steps in Tonga's development. This is complemented by a major program underway strengthening resilience of school buildings, upgrading curriculum and assessment supported by an improved education information system.

5.3.3 Labour Force Participation

In the **Labour Force Survey 2023**, Tonga's unemployment rate was recorded as 2.2 percent, a 0.9 percentage point decrease from 2018. Out of 29,253 people in the labor force, 650 were unemployed but actively seeking work. Unemployment was higher among females (2.6 percent) than males (1.9 percent) and more prevalent in urban areas than rural areas. Tongatapu urban had the highest unemployment rate (3.2 percent), while Ongo Niua had none (0.0 percent). Youth unemployment stood at 6 percent, with a higher rate among females than males.

Figure 6: Seasonal worker outflow.



Source: DEWR, PALM Scheme.

Labour Force Participation Rate (LFPR) was 45 percent, with higher participation in urban areas compared to rural areas. The majority worked in the tertiary sector, while agriculture had the lowest share. Employment was highest among ages 55-59 and lowest among ages 20-24.

Over the years, both RSE program in New Zealand and the PALM scheme in Australia have shown a general increase in

participation. Figure 6 shows the number of Tongans participating in the New Zealand Recognized Seasonal Employer (RSE) scheme⁷ or the Pacific Australia Labour Mobility (PALM) scheme⁸ are once more rising following an interruption related to during the Covid-19 pandemic and comprise a significant component of the Tongan workforce.

The data indicate a steady rise in the number of workers engaged in these seasonal employment programs in the post-pandemic period, with PALM consistently having a higher number of participants than RSE. Despite some fluctuations in certain years, the overall trend highlights the growing reliance on these programs as a source of employment for Tongan workers. This increase directly contributes to the country's remittances, supporting families through financial inflows from overseas employment. As of September 2024, 31,230 workers were employed through the PALM scheme, including 3,350 from Tonga. PALM workers were primarily employed in agriculture (53.0 percent) and meat processing (38

⁷ Source: Immigration New Zealand Arrivals.

⁸ Source: Ministry of Internal Affairs: Overseas Employment Division.

percent). Workers save or remit approximately \$1,500 monthly, with the remittances equating to about 45.0 percent of GDP in 2022.

The Government acknowledges the challenges to Tonga which result from these schemes, particularly the rising number of absconders, notably in the Australian program, and the resulting social and family issues, and the outflow of workers to Australia and New Zealand which has led to notable labor shortages within Tonga. Local businesses, particularly in sectors like agriculture, construction, and retail, have struggled to maintain operations due to a depleted workforce. The Government continues to explore appropriate measures to address these concerns.

Despite these challenges, the scheme remains a vital source of income for many Tongan families. In recognition of its economic benefits, the Government is committed to expanding the participation of Tongans in overseas employment programs. Efforts are also underway to explore opportunities in other sectors, including carpentry, caregiving, fishing, and professional fields such as nursing and teaching.

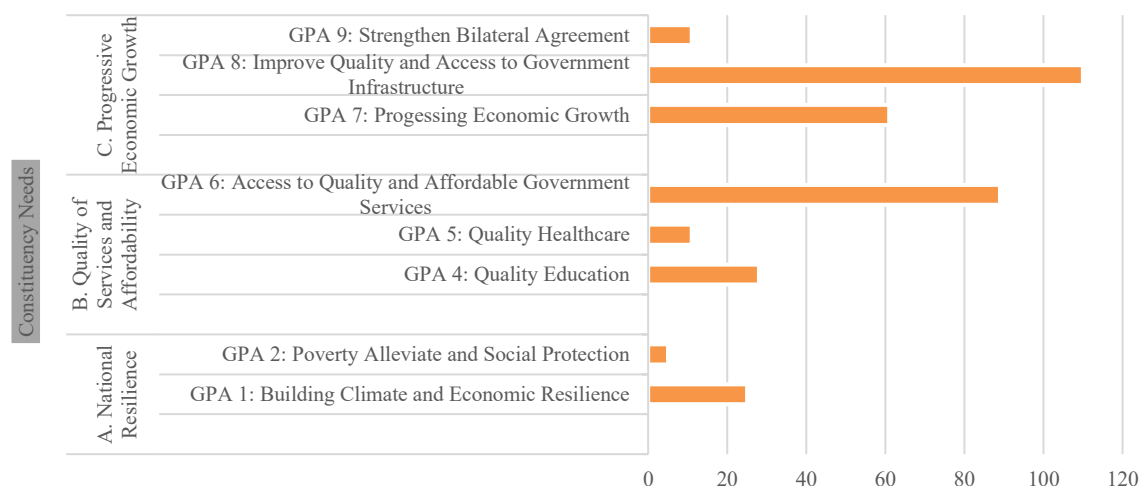
5.3.4 Constituency Reports Key Issues

Constituency Priorities:

Parliament Constituency's Report, 2022 - 2024, summarized in Figure 7 below, captures the key priority needs identified during parliamentary visits. These needs, shaped by the lingering effects of the COVID-19 pandemic and the Hunga Tonga-Hunga Ha'apai volcanic eruption and tsunami, categorized by thematic areas aligned with the Government's Priority Agenda (GPA) for FY 2025.

The most frequently raised priorities were related mostly to GPA 6: Access to Quality and Affordable Government Services, GPA 7: Progressing Economic Growth and GPA 8: Improving Quality and Access to Government Infrastructure.

Figure 7: Constituency Needs by GPA (number of times raised during consultation).



Source: Ministry of Finance.

The key challenges also related mostly to improving quality and access to Government, such as coordination gaps, limited transparency and weak institutional oversight, absence of governance structure within constituency offices, capacity constraints in constituency offices. Although the constituency funds continue to play a critical role in promoting priority needs of the communities, it is still not enough to address all the concerns. Therefore, the Government will implement appropriate reforms to ensure this policy aligns with the principle of allocative efficiency and renew its strategic

commitment to ensure that the constituency fund can continue to serve as a practical, equitable, and trusted mechanism for sustainable development across all constituencies.

5.4 Fiscal Position and Public Debt Outcomes

5.4.1 Fiscal Position

A fiscal surplus is projected over the medium-term under the GFS framework, with receipts greater than expenses and acquisition of non-financial assets. This will be underpinned by stronger domestic revenue collection, increased budget support, and capital grants aimed at advancing development projects and stimulating private sector growth. This positive fiscal position has also been supported by lower-than-anticipated government expenditure, reflecting prudent fiscal management, effective expenditure controls, and the implementation of targeted cost-saving measures such as the reduction in public sector operational spend

This is important to note, as while the FY 2026 Budget will record a deficit of \$29.1m, the GFS fiscal balance will display a surplus of \$55.5m. This discrepancy is due to some nuance in the recording of each item, with the Government's Budget including large debt repayments this fiscal year, primarily to the EXIM Bank, whereas in accordance with the GFS framework the fiscal position is concerned solely with the balance of between non-debt incomings and outgoings. The fiscal balance therefore provides a more accurate measure of the sustainability of public finances year-on-year, and so a positive fiscal surplus provides a strong indication of ongoing financial stability as the Government continues to pay down external debt.

Looking ahead, the continued strengthening of revenue administration, coupled with ongoing monitoring of expenses, will contribute to a positive fiscal outcome. These measures will not only reinforce macroeconomic stability but also create fiscal space for strategic investments in priority sectors.

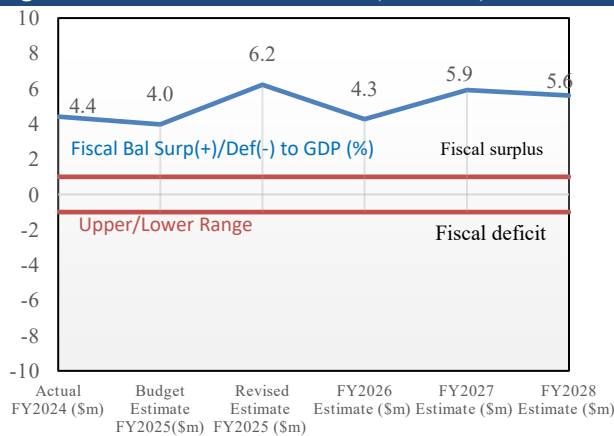
The tables below summarize the Government Fiscal Indicator Performance for FY 2024 to FY 2028.

Table 10: Government Fiscal Indicator Performance for FY 2024 to FY 2028.

Fiscal Indicators (\$millions)	Provisional FY2024 (\$m)	Original Estimate FY2025(\$m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027(\$m)	Projection FY2028 (\$m)
Overall Revenue	735.1	896.5	840.0	929.7	911.5	900.4
Total Domestic Revenue	348.2	382.3	392.3	420.5	462.0	472.9
Total Grant	386.9	514.2	447.7	509.2	449.5	427.5
Total Expense	492.0	611.9	526.2	621.9	545.3	555.7
Compensation of Employees	164.7	189.6	180.4	192.9	193.2	193.7
Fiscal Balance Surplus(+)/Deficits(-)	53.9	49.8	78.0	55.5	80.4	79.6
% of GDP or otherwise specified						
Overall Revenue to GDP (%)	60.3	71.5	67.0	71.4	67.1	63.5
Total Domestic Revenue to GDP (%)	28.5	30.5	31.3	32.3	34.0	33.3
Total Grants to GDP (%)	31.7	41.0	35.7	39.1	33.1	30.1
Total Expense to GDP (%)	40.3	48.8	42.0	47.8	40.1	39.2
Compensation of Employees (% of Domestic Revenue) Wage Bill (<53%)	47.3	49.6	46.0	45.9	41.8	41.0
Fiscal Bal Surp(+)/Def(-) to GDP (%)	4.4	4.0	6.2	4.3	5.9	5.6

Source: Ministry of Finance.

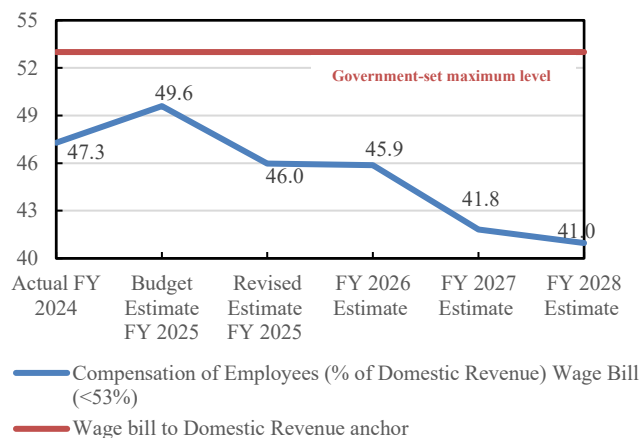
Figure 8: Fiscal Deficit to GDP (% , 2025).



Source: Ministry of Finance.

Fiscal Balance: A fiscal surplus of \$55.5m (4.3 percent of GDP) is projected for FY 2026, driven by prudent government spending and targeted expense controls. The medium-term outlook remains positive, with an expected FY 2028 surplus of around 5.6 percent of GDP, supported by ongoing fiscal reforms aimed at boosting revenue, improving tax compliance, and strengthening expenditure management.

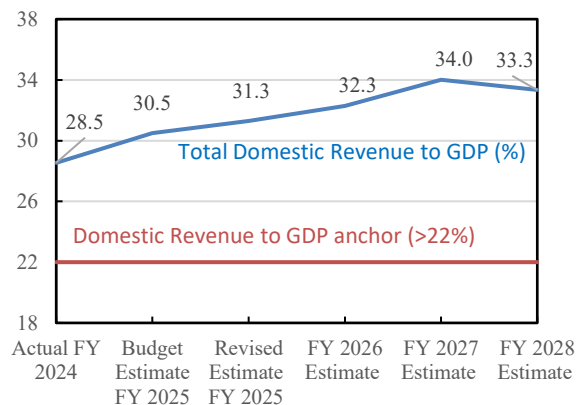
Figure 9: Wage Bill to Domestic Revenue (% , 2025).



Source: Ministry of Finance.

Wage bill: The wage bill fiscal anchor remains a concern through potentially delaying service delivery if not properly controlled. As such the Government is seeking to control operational expenditure, with the revised estimate for wage bill in FY 2025 projected at 45.9 percent, below the Government's threshold of 53 percent of domestic revenue. In the medium-term, the wage bill is projected to continue to fall due to the Government's ongoing commitment to monitor and follow due process for new recruitment and related policies for managing the wage bill allocation.

Figure 10: Domestic Revenue to GDP (% , 2025).



Source: Ministry of Finance.

Domestic revenue: Domestic revenue is projected to reach 32.3 percent of GDP in FY 2026, exceeding the 22 percent benchmark and marking a 1.8 percentage point rise from the initial FY 2025 estimate. This increase is driven by ongoing improvements in revenue systems and expanding electronic cash registers to more sectors, boosting tax compliance. Over the medium-term, revenue is expected to rise to 33.3 percent of GDP in FY2028, supported by economic growth, tighter expenditure controls, and measures to manage public sector wages and disaster-related fiscal risks.

Grants: Under the revised FY 2025 estimate, total grants are projected to fall by 5.3 percent relative to the initial FY 2025 estimates, with the drop attributed to delays in capital grants for major projects. In FY 2026, grants are forecast to rise to \$509.2 m, boosted by increased budget support and new project funding. Over the medium-term, grants are expected to remain strong, supported by ongoing government partnerships with development partners and new donor-funded initiatives aligned with national priorities. However, this aspect of the Budget Strategy will be subject to careful monitoring given the wider global aid environment.

5.4.2 Public Debt Position

The current debt portfolio continues to present notable challenges, with refinancing risk and exchange rate risk being the primary concerns. As of 30th June 2025, approximately 83.8 percent of total debt is denominated in foreign currencies, leaving the portfolio vulnerable to currency fluctuations. However, the exposure is somewhat mitigated by the commencement of major repayments to the EXIM Bank in 2024, which have altered the currency composition of debt. Following the repayments, Special Drawing Rights (SDR)⁹ now constitute the largest share of outstanding debt, representing 46.8 percent of the total, partially mitigating exchange rate risks by balancing across a basket of currencies.

However, refinancing risk remains a constant issue, driven primarily by the two large loans provided by the EXIM Bank, for which repayment is on scheduled having started in 2024 and continuing to 2030. For the year ending 30th June 2025, Tonga's total debt service for these obligations is estimated at \$69.8m, comprising of \$50.9m external debt (73.0 percent of total debt service) and \$18.9m domestic debt (27.0 percent of total debt service). This is an increase of \$4.9m relative to June 2024, attributed to increased bond maturity and exchange rate fluctuations.

Total public debt as of 30th June 2025 is estimated at \$428.9m (34.2 percent of GDP). This represents a decrease of \$14.5m relative to the level of total public debt as of June 2024, amounting to a 3.3 percent reduction. However, it is notable that this does not include the expected \$30.0m to be issued in new domestic bonds in FY 2026.

5.4.3 Public Financial Management

The Ministry of Finance continues to implement the Public Financial Management (PFM) Reform Program FY2025–FY2029, with the key milestone this year being Cabinet approval of the revised PFM Bill and endorsement of the PFM Roadmap by the PFM Technical Committee.

The reform program aims to strengthen macroeconomic stability, enhance coordination across the MDAs, and modernize financial systems, including a DFAT-supported upgrade of the Financial Management Information System (FMIS). Ongoing national consultations, updated reform actions, and responses to audit findings demonstrate the Government's commitment to transparency and fiscal discipline.

5.5 Foreign Reserves and Balance of Payments Outcomes

⁹ Special drawing rights are supplementary foreign exchange reserve assets defined and maintained by the International Monetary Fund. The value of a SDR is based on a basket of key international currencies, which currently includes the U.S. dollar, Euro, Chinese yuan, Japanese yen, and the British pound sterling.

Foreign Reserves

Tonga's official foreign reserves declined by 2.9 percent over the year to February 2025, falling to \$865.4 m. Despite this drop, reserves remain well above the IMF's recommended 7.5 months of import coverage and the NRBT's 3-month import cover threshold, with the current import coverage sitting at 9.9 months. The fall in reserves is mainly due to marginally higher purchase prices for imports, fluctuations in offshore investments, and external debt repayments.

Balance of Payments (BOP)

The current account deficit narrowed sharply by 61.7 percent to \$27.9 m in the year to September 2024. This was supported by stronger inflows in the primary and secondary income accounts, particularly from remittances and foreign aid. A modest decline in the trade deficit also helped, driven by a 23.5 percent rise in travel-related service exports.

Exchange Rates

The Tongan Pa'anga strengthened against most major trading partner currencies, with the nominal effective exchange rate (NEER) rising 1.2 percent by February 2025. This appreciation helped ease imported inflation. Meanwhile, the real effective exchange rate (REER) fell slightly by 0.4 percent, indicating a small gain in Tonga's international trade competitiveness.

5.6 Monetary Outcomes

Inflation

The Tonga Statistics Department undertook a rebasing of the CPI measure in 2025 to ensure that CPI continues to better reflect current household consumption patterns. Tonga's newly rebased CPI (2021 HIES base) shows a higher rate of inflation relative to the previous CPI measure. Following the rebasing adjustment, annual average inflation for the year to end-2024 was recorded as 5.4 percent, which represents 2.2 percentage point a rise from the 3.2 percent previously recorded. This upwards adjustment primarily resulted from updated consumption weights which saw the proportion of consumer spend directed towards food & accommodation services increase, with follow-on effects to CPI given prices in this category grew faster than aggregate.

Based on the rebased CPI measure, annual year-on-year inflation peaked at 6.0 percent in December 2024 but has since fallen to stand at 3.3 percent in March 2025, below the NRBT's reference rate of 5.0 percent. The recent decrease was primarily driven by a reduction in the price of local goods, which fell by 5.2 percent month-on-month between January and February, with a further 1.2 percent decrease between February and March.

Interest Rates

The interest rate spread narrowed to 6.1 percent by February 2025, driven a sharper decline in lending rates (down 21.6 bps) compared to deposit rates (down 10 bps). The easing in lending rates reflects more favorable terms for businesses, households, and non-profit borrowers, while deposit rates declined due to shifts in demand and time deposits.

Lending Balance

Total bank lending (including Government Development Loans) grew strongly by 12.0 percent to \$593.5m over the year to February 2025. Business loans rose 9.6 percent, particularly in services,

tourism, and distribution, while household lending increased by 5.1 percent. However, non-performing loans (NPLs) also rose sharply from 9.9 percent to 13.9 percent, prompting closer NRBT supervision and enforcement of adequate provisions. Bank lending is projected to increase in FY 2026 with the Government's expansion of the Government Development Loan program.

Broad Money

Broad money supply grew by 7.7 percent to \$914.8m, supported by higher credit to the private sector and public corporations. Reserve money also rose modestly by 1.8 percent to \$614.2m. Despite this growth, excess liquidity in the banking system remains high at over \$300m, pointing to slow credit uptake and delays in deploying project funds.

5.7 Reform of Government

5.7.1 Joint Policy Reform Framework

The Government will continue to implement its reform programs as outlined in the Joint Policy Reform Framework (JPRF), focusing on three key pillars:

1. Strengthened Public Finances
2. Enhancing Resilience to Climate Change and Disasters
3. Supporting Economic Recovery

The policy actions implemented under *JPRF Pillar 1*, include the breakdown of tax expenditures by sector and tax type, the review and amendment of consumption tax, excise custom orders, the publication of quarterly debt reports, and as the first Annual borrowing/financing plan and fraud policy (TSDF Pillar 1). The policy approved under *JPRF Pillar 2* includes the multi-hazard early warning system policy (TSDF Pillar 5) and the social registry (TSDF Pillar 3). Under *JPRF Pillar 3* relevant policy approved includes the expansion and mainstreaming of the Authorized Operator program (TSDF Pillar 3).

Reform efforts continue, with the Government seeking to finalize the adaptive social protection framework (TSDF Pillar 2), the consumer protection bill (TSDF Pillar 1), and the reform works under the energy sector (TSDF Pillar 4). Additionally, the Government is committed to the ongoing planning efforts required to improve overall public sector performance, including implementing the organizational review of the public sector, targeting improved efficiency in public service delivery through the implementation of the e-government project, capacity building, and focusing on skills gaps through the planned re-establishment of the Public Training Institute and the provision of scholarship opportunities.

5.7.2 Technology and Digital Transformation

The Government of Tonga reaffirms Digitization Transformation as one of its national priorities, recognizing its pivotal role in improving governance, strengthening service delivery, and building an inclusive, resilient economy. Guided by the Tonga Digital Government Strategic Framework (2019–2024) and fully aligned with the national outcomes of the TSDF II the Government has made significant strides in laying Tonga's digital foundations.

Key achievements include:

- The establishment of a secure Digital ID platform (Tonga Pass) to validate citizen identity.

The deployment of an upgraded Government Portal to serve as the official gateway to government services.

- A new Citizen Portal to enable individuals to track applications, book appointments, and provide feedback on public services.
- The development of the Government Interoperability System to automate secure data sharing between ministries.

These platforms are critical for improving access to vital statistics, enabling secure online payments, supporting digital education delivery, and enhancing health and social services across the country.

As Digital Transformation remains a top Government priority, future efforts will expand broadband infrastructure to underserved areas, develop a national digital payments system to promote financial inclusion, modernize legacy information systems, and build digital skills and capacity across the public service and broader community. In recognition of the accelerating pace of technological advancement, the Government will also embrace Artificial Intelligence (AI) and other emerging technologies as critical components for future service innovation, data-driven policy development, and public sector modernization. These technologies will ensure that Tonga remains competitive, adaptive, and inclusive in the global digital economy.

By placing Digital Transformation at the heart of its national development agenda and aligning it with the new TSDF and the SDGs, the Government is laying strong foundations for a more connected, transparent, innovative, and prosperous Tonga where technology empowers every citizen and strengthens national resilience into the future.

5.8 Climate Change, Impact and Adaptation

Tonga's geography and location mean that it is at heightened risk of adverse impacts resulting from climate change or natural disasters. As evidenced by the disruption resulting from the HTHH eruption, natural disasters have the potential to cause significant damage to Tonga's economy, while rising sea levels place Tonga at risk of coastal erosion.

Additionally, increasingly extreme weather patterns can impact Tonga's key industries of agriculture and fisheries as weather events such as El Nino and cyclones increase in severity. In order to mitigate such risks, the Government will look to mitigate the associated risks, strengthening resilience, and increasing Tonga's adaptive capacity.

To achieve this objective, the Government have placed climate resilience at the heart of the FY 2026 Budget, with GPA 1 covering Climate and Disaster Resilience initiatives. This will drive the implementation of climate change policies to ensure there is adequate financial means, improved technical capacity, strengthened institutional structuring, and develop inclusive climate change adaptation and mitigation projects.

Current Climate Change Policies:

The Joint National Action Plan 2 (JNAP II) guides the country's vision towards a resilient Tonga through an inclusive and participatory approach that is structured in effective governance. The JNAP 2

progress report in 2021 underscores the importance of considering climate change in all priority sector plans, in relation to the roll-out capacity of development initiatives, and to ensure adequate investment in national resilience through the development of appropriate climate systems and reporting frameworks.

To date, the Government has engaged with Development Partners to further climate resilience, with initiatives ranging from solid to soft projects. These include the Water Security Community program and the Fetakinima Funds.

5.9 Risk and Mitigation

The economic landscape of Tonga is not without its share of challenges, as the nation grapples with various risks that have the potential to shape its growth trajectory and overall stability. These risks, spanning from environmental vulnerabilities to external economic shocks and fiscal challenges, may adversely impact the country's expected growth projections. In response to these concerns, the Tongan Government is implementing a series of strategic measures to actively address and mitigate these risks.

1. Escalating costs from natural disasters and climate change

Tonga faces significant financial challenges due to its high vulnerability to natural disasters and the impacts of climate change. The nation experiences an average annual loss of approximately **US\$15.5m** from earthquakes and tropical cyclones, with a 50 percent chance of incurring losses exceeding **US\$175m** in the next 50 year¹⁰.

To mitigate these risks, the government has implemented the **Disaster Risk Financing Strategy 2021–2025**, focusing on enhancing economic and fiscal resilience through improved domestic revenue collection, securing concessional financing, and maintaining disaster insurance arrangements with entities like the Pacific Catastrophe Risk Insurance Company (PCRIC).

2. High vulnerability to external shocks due to its small size and remote location

External shocks, such as the global impact of the COVID-19 pandemic and increased global commodity prices resulting from the Russia-Ukraine war and other global disruptions, can disrupt services, economic activities, tourism, and remittances, eroding confidence among businesses and households. To mitigate these risks, the government is implementing measures such as subsidies when necessary to counteract inflationary impacts. The National Reserve Bank of Tonga plays a crucial role in maintaining significant international reserves to offset balance of payments deterioration, acting as a buffer against potential risks.

3. Issues on managing labour mobility.

Efforts to manage challenges in labour mobility are central to the Government of Tonga's agenda. While acknowledging the economic benefits of remittances, the government is attuned to the social ramifications of emigration. A pressing concern is the "brain drain" phenomenon, where skilled individuals seek opportunities abroad, resulting in a loss of expertise which could otherwise play a critical role in Tonga's development and innovation. To mitigate this risk, the government is intensifying investments in education and training, aiming to cultivate a skilled workforce capable of driving domestic growth. Recognizing the strain on sectors like agriculture due to dwindling labour supply, Tonga is exploring technology adoption including the potential for partial automation. The government

¹⁰ Global Facility for Disaster Reduction and Recovery, 2021

is also taking steps to enhance private sector participation in the economy, creating more job opportunities, and contributing to the development of Tonga.

4. Lack of diversification of the Tongan economy

The limited diversification of the Tongan economy, which remains heavily reliant on key sectors such as agriculture, fisheries, and tourism, poses another risk. To address this, the government is actively working to broaden the export base, improve import substitution, and create a conducive environment for business. The Government has prioritized the introduction of policy promoting strong public-private partnerships in fields such as construction, tourism, and agriculture, while also delivering improved funding to these sectors to widen production and increase the export base.

5. Limited Human Capital

Tonga faces ongoing challenges related to its limited human capital, particularly in relation to areas requiring specific expertise such as specialized healthcare. High staff turnover in the public service exacerbates this concern. The Government is responding by investing more in education and training programs, and establishing the Tonga National University. These measures aim to build a skilled and productive workforce while ensuring the retention of skilled workers within the country.

6. Fiscal Vulnerability

Fiscal vulnerability, marked by a relatively high debt-to-GDP ratio and loan repayment commitments, is an ongoing risk. Significant progress has been made, especially through the reduction of the Debt/GDP ratio and the continued repayment of loans to external creditors. To navigate this challenge further, the government will maintain fiscal buffers, review exemption policies, seek supplemental financing options, and adhere to the Medium-Term Debt Strategy (MTDS). Prudent spending practices, alongside the careful consideration of the high concessional interest rates applicable to debt financing, are essential elements of risk mitigation.

7. Public Sector Institutional Capacity

Risks related to public sector institutional capacity present an additional concern, especially concerning the Government's role in the acceleration of recovery-related activities and targets. The Government will address this by re-establishing the Public Training Institute, while also fostering continuous partnerships and collaboration with development partners to secure financial support and seek technical assistance. These efforts aim to enhance the capacity-building of staff and provide additional technical support for disaster recovery planning.

6 GOVERNMENT BUDGET

6.1 Budget Overview

The FY 2026 Budget is guided by the theme: *“Re-focusing Resource Allocation on Impactful Projects for Sustainable, Viable Economy”*. The theme underlines the Government’s aim of supporting investment initiatives in crucial economic sectors to maximize growth. The Government is targeting a deficit budget (or a surplus with net of bond payments and receipts) in FY 2026, seeking to ensure that expenditure is governed by the available resources while achieving more value for money from public investment. By re-focusing investment on effective programmes, the Government aims to deliver an ambitious agenda which will continue Tonga’s economic recovery, enhance domestic resilience to climate change, implement government reform to deliver quality and affordable services, and provide social protection services to vulnerable groups.

6.2 Recurrent Budget

In FY 2025, a surplus budget (or balanced with net of bond payments and receipts) was originally estimated. However, over the previous two fiscal years domestic revenue collection has exceeded expectations, while prudent spending has allowed Government expenditure to fall beneath the originally forecast levels. This has contributed to a Budget surplus, based on the revised estimates and with an associated increase in cash reserves, of \$27.6m by the end of FY 2025.

For FY 2026 the Government estimates a **budget deficit of \$29.1m**, financed by the issuance of \$30.0m in new domestic bonds. The deficit will be used to finance large-scale infrastructure projects. In the medium-term, forecasts expect a surplus of \$13.7m in FY 2027 along with a \$11.0m surplus in FY 2028.

As part of the Budget Strategy, the Government will aim to redirect funding to the most impactful projects. Prioritizing efficiency in budget allocation will be vital to ensuring Tonga’s ongoing development as the country continues to rebuild from the external shocks of the Covid-19 pandemic and the HTHH eruptions. In identifying impactful projects, the Government, with the assistance of Tonga’s development partners, aims to redouble efforts to stimulate economic growth, enhance social protection measures, develop critical infrastructure, and increase climate resilience efforts.

Table 11: Recurrent Budget Projections for FY 2026 – FY 2028 (\$m).

	Actual FY2024 (\$m)	Original Estimates FY2025 (\$m)	Revised Estimate FY2025 (\$m)	FY2026 Estimate (\$m)	FY2027 Projection (\$m)	FY2028 Projection (\$m)
Revenues	418.6	463.3	478.6	560.4	557.4	567.4
Domestic Revenues	347.9	370.2	379.1	440.2	475.2	486.0
<i>Tax</i>	292.5	297.5	306.6	334.5	364.6	376.5
Income Tax	66.3	68.8	76.6	78.7	92.7	97.5
Trade Taxes	25.0	30.0	29.0	33.2	38.0	39.7
Tax on Goods & Services	132.6	138.8	142.5	145.0	152.5	154.2
Excise Tax	68.7	59.9	58.5	77.6	81.4	85.1
<i>Non-Tax</i>	55.4	72.8	72.4	105.6	110.6	109.5
Fees & Licenses	28.5	25.4	20.7	44.9	54.7	54.3
Entrepreneurial & Property	25.4	28.2	33.9	39.5	40.9	40.2
Miscellaneous	1.1	0.5	1.0	0.9	1.9	2.0
Capital & Transfers	0.4	18.7	16.9	20.4	13.1	13.1
Budget Support	70.7	93.1	99.5	120.2	82.2	81.3
Expenditures	397.9	462.5	449.2	589.5	543.7	556.4
Wage Bill	169.1	190.5	181.0	196.3	196.7	197.7
Operations	165.6	192.7	196.3	217.1	242.9	246.8
Private Sector Development	0.9	14.1	8.2	56.4	30.0	30.0
Assets	8.5	11.7	9.5	64.8	18.8	25.5
Debt	53.8	53.5	54.2	54.8	55.3	56.4
	397.9	462.5	449.2	589.5	543.7	556.4
Balance	20.8	0.8	29.4	(29.1)	13.7	11.0
Financing	(20.8)	(0.8)	(29.4)	29.1	(13.7)	(11.0)
Bond Receipts	14.0	15.0	15.0	43.6	19.9	15.1
Bond Payments	11.0	15.8	16.8	13.6	19.9	15.1
Cash reserves	23.8	(0.0)	27.6	0.9	13.7	11.0

Source: Ministry of Finance (MOF)

The recurrent budget for FY 2026 targets total revenue collection of \$560.4m (excluding bond receipts). This revenue is expected to consist of \$440.2m in domestic revenues alongside \$120.2m in budget support. These receipts fall short of the forecast expenditure of \$589.5m resulting in a budget deficit of \$29.1m. This will be covered by bond issuance – including both normal and rollover - of \$43.6m.

The government aims to service all debt repayments using domestic revenues, resulting in a surplus of \$385.4m to finance non-debt expenditures. However, spending on private sector development and assets is expected to increase by \$103.4m as part of the Government's infrastructure program, while there are also minor increases in expenditure on public sector wage bill and operations to support project initiation in the short-term. As such, Tonga's development partners have provided budget support of \$120.2m to help fund the shortfall. Over the medium-term, the government will maintain spending within available resources, resulting in a budget surplus of \$11.0m by the end of FY 2028.

Certain challenges facing the FY2026 budget will result in constrained fiscal space over the medium-term, including the need to strengthen national resilience following the HTHH eruption, continued inflationary pressures, labor shortages, and debt servicing commitments. The government aims to prioritize strengthening fiscal discipline through continuous reviews of expenditure and revenue sources, seeking to improve effectiveness and efficiency in service delivery. At the same time, the Government will promote economic recovery in partnership with relevant stakeholders, including the private sector.

Total Recurrent Revenue:

The total level of recurrent revenues for FY 2026 is estimated to increase by \$110.4m or 22.4 percent (including bond receipts) compared to the FY 2025 revised estimates. Relative to the FY 2025 initial estimates, this amounts to an increase of \$125.7m or 26.3 percent (including bond receipts). The main triggers for the increase include:

- Tax revenues are estimated to increase by 9.1 percent or \$27.9m in FY 2026 from the revised estimates of FY 2025, based on strong tax collection primarily from consumption tax on imports, an improvement in tax compliance and administration efforts, and projected growth in domestic economic activities. Tax revenues are also supported by robust remittances, and stable domestic income levels (including the increased number of beneficiaries under the social welfare scheme monthly stipends). Additionally, a review of tax exemptions and expenditures is expected to increase tax revenues collection over the medium-term. The increase in FY 2026's estimates also reflect the recategorization of revolving funds to form part of the recurrent budget instead of the development budget. The forecast for FY 2026 tax revenue is in-line with expectations of projected growth over the medium-term.
- Non-tax revenues are expected to increase by 45.9 percent or \$33.2m (excluding bond receipts) in FY 2026 from the revised estimates of the current FY 2025. This expected increase results from the anticipated review of current public service fees and charges and continuous improvements in the dividend returns from public enterprises and the National Reserve Bank of Tonga.
- Budget support receipts are projected to reach \$120.2m in FY2026 inclusive of the additional budget support provided by the Australian Government (Normal \$31.2m and additional \$14.9m) and the New Zealand Government (Normal \$11.3m and additional \$24.4m). Tonga continues to benefit from strengthened partnerships with its development partners, and in FY 2025 to meet key policy triggers under the joint-policy reform matrix mechanism, which will result in an additional \$82.2m of budget support in FY 2027 and a further \$81.3m in FY 2028.

6.2.1 Recurrent Expenditure by Category

The total recurrent expenditure budget for FY 2026 is estimated to reach \$589.5m (excluding bond payments), an increase of \$140.3m or 31.2 percent from the FY 2025 revised estimates, and which also represents a \$127.0m or 27.5 percent increase from the FY 2025 original estimates. The principal drivers of this increase and key changes in the FY2026 expenditure budget include:

- The provision of a \$20.0m allocation towards Fanga'uta SECURE bridge project.
- Strengthened use of private sector development funds by a \$56.4m allocation to provide government development loans to the TDB, to provide increased access to finance to support key sector initiatives as follows:
 - \$30m private sector development allocation;
 - \$10.7m (current Government development loan via Tonga Development Bank);
 - \$10.0m non-government school allocation for non-government schools;
 - \$4.5m Student Loan (balance carried forward from FY2025); and
 - \$1.2m as micro-financing (formally managed by MOF) – this will be complemented by \$21.7m through the development fund for women's microfinance, with funding from ADB.

- The \$20.0m funding allocation for the road maintenance fund, which has been reallocated to recurrent estimates in FY2026, having previously been categorized under development estimates in FY2025).
- \$7.0m allocated towards the Vava'u Hospital as government contribution to the project.
- \$6.0m funding allocated for the Queen Salote School of Nursing.
- \$10.0m funding allocated for Health Centers
- \$1.0m funding allocated for the Psychiatric Rehab Center
- \$6.8m funding for affordable housing under Ministry of Infrastructure.
- \$2.2m in insurance contributions for PICRIC.
- \$1.5m towards the bio-gas production project.
- \$1.5m towards national events for the 150th Anniversary of the Constitution of Tonga (4th November 2025).
- \$1.2m increase in maintenance of buildings and compounds for the London and New York Missions.
- \$2.1m allocation for the establishment and operation of the Suva Mission.
- \$1.5m allocated for the new construction of the 'Atalanga premises.
- \$0.4m allocated for new vehicles (for Ministry of Justice, Office of the Anti-Corruption Commissioner, Inclusive Education and Suva Mission).
- \$4.0m Computer Software for Ministry of Revenue and Customs.
- \$1.6m allocation for the building of Sainai Prison, Ha'alefo Prison and the female prison in Tongatapu.
- \$500k+ allocations for the maintenance and upkeep of the Tonga National Sports complex managed by Tonga High School, and the Tonga College boarding school facilities.
- \$500k for Commercial Fishing Vessel Management.
- \$170k+ operational costs for Tonga hosting the SC21 meeting (managed by Ministry of Fisheries).
- \$255k for fire hydrants for Ha'apai and Vava'u.
- \$200k+ allocation to strengthen the Office of the Anti-Corruption Commissioner's operations.
- \$1.8m new building for Police and Fire Station in Leimatu'a, Vava'u and Houma, Tongatapu.
- \$800k+ for strengthening operations under MTED.
- New positions that were approved across line ministries at 40 percent allocations worth \$2m+.
- Continued arrangement as in FY2025 for vacancies, which are allocated to 40 percent of their allocations in FY2026.
- Increased allocation for government primary school maintenance by \$0.8m.
- Decentralizing of the Illicit Drugs Fund \$5m housed under Finance to each relevant leading MDA – Police \$2.5m, Revenue & Customs \$1m and Prisons \$1.5m.
- Continued screening of spending on catering & refreshment, overseas travel, fuel, hospitality, and overtime across line ministries.
- Capital expenditures spending pending clear justifications from line ministries – FY2026 budget mainly considering major building projects etc.
- Reporting adjustment of the revolving funds under development budget to the recurrent budget reflected under MOI.
- Transfer of the e-government from PMO to MEIDECC and Intelligence Unit from PMO to Police.

Table 12: Total Recurrent Expenditure by Category (\$m)¹¹.

Expenditure by Category	Actuals FY2020 (\$m)	Actuals FY2021 (\$m)	Actuals FY2022 (\$m)	Actuals FY2023 (\$m)	Provisional FY2024 (\$m)	Original Estimates FY2025 (\$m)	Revised Estimates FY2025 (\$m)	Estimates FY2026 (\$m)	Projection FY2027(\$m)	Projection FY2028 (\$m)
Established Staff	135.4	140.8	152.5	147.6	149.8	172.6	164.4	175.5	176.2	177.2
Unestablished Staff	8.9	10.6	10.6	12.0	14.7	14.0	13.0	16.9	16.6	16.6
Travel & Communications	12.5	10.2	9.8	19.6	16.2	13.1	14.7	13.9	14.0	14.0
Maintenance & Operations	26.1	27.0	21.9	23.8	23.2	30.0	29.3	38.4	66.8	62.8
Purchase of Goods & Services	46.1	58.7	61.7	64.4	64.9	66.2	72.7	87.9	83.6	84.0
Grants & Transfers	47.4	46.4	48.0	58.1	57.0	65.5	68.3	67.2	65.8	59.3
Development Duties	1.0	2.9	2.7	2.7	1.9	5.6	4.0	4.6	7.6	21.6
Debt	38.1	25.4	34.6	43.5	64.8	69.3	71.0	68.4	75.2	71.5
Contingency Fund	-	-	-	-	-	5.0	0.0	5.0	5.0	5.0
Pension & Gratuities	4.6	4.4	3.9	4.1	4.5	3.9	3.6	3.9	3.9	3.9
Assets	12.4	17.2	14.1	17.2	8.5	11.7	9.5	64.8	18.8	25.5
Equity Payments	-	-	-	0.4	2.5	7.4	7.3	0.1	0.1	0.1
Private Sector Development	-	-	-	1.4	0.9	14.1	8.2	56.4	30.0	30.0
Grand Total	332.6	343.6	359.8	394.9	409.0	478.3	466.0	603.0	563.6	571.5

Source: Ministry of Finance (MOF)

In FY 2025, recurrent spending is estimated to reach \$466.0m by June 2025 compared to an original budget of \$478.3m, which will result in an underspending of \$12.3m. This is mainly due to expenditure in the established staff category coming in lower than expectations, largely due to the salary revision vote (PMS) in the Ministry of Finance being significantly below estimates. Expenditure is also lower as a result of the increasing prevalence of unfilled vacancies, particularly in the Ministries of Health, Ministry of Revenue and Customs, His Majesty's Armed Forces and technical positions for which ministries are finding recruitment challenging given the higher compensation available in donor funded projects or overseas. In response to these challenges, the Government will retain duty allowances for teachers and progress the salary realignment for the Ministry of Police and His Majesty's Armed Forces.

Compared to the past 5 years, established staff costs have steadily increased except for FY2022 during Covid-19 as the Ministry of Health's overtime spiked by 383.9 percent of the original budget or \$7.0m.

In the recurrent spending, it is estimated to increase in FY2026 by 29.4 percent or \$137.0m from the revised estimate of FY2025. This is mainly driven by the asset, private sector development and purchase of goods and services category. This reflects the shift of the revolving fund and projects that were funded under the additional budget support from development budget to the recurrent budget, evidently under the road maintenance operations of Ministry of Infrastructure. Other increases are the \$20m for the Fanga'uta Bridge and \$24m for the Ministry of Health's Vava'u Hospital, nursing school, health centers and rehabilitation center.

The second highest increase in the recurrent budget expenditure category falls under the private sector development category, increasing by \$48.2m or 342 percent from the revised estimate of FY2025. This mainly directs all resources for strengthening the private sectors by providing Government Development Loan (GDL) with low interest repayments through Tonga Development Bank.

This is followed by an increase in purchase of goods and services of \$15.3m or 23.1 percent from the revised estimates of FY2025. These are attributed mainly to the affordable housing program and outer island jetties \$8.4m, \$2.2m insurance in the Ministry of Finance for the government's ongoing efforts to strengthen its disaster preparedness in collaboration with PCRIC. Farming supplies to support biogas to help communities as well as increases in ration and diet allocations for His Majesty's Armed Forces. The average spending under this category is around \$59.2m; and anticipates an \$88.0m allocation in FY2026.

¹¹ To note, for each of the detailed recurrent budget tables provided the bond financing is not included in the figures presented (covers expenditure by category, revenue by category, expenditure by ministry, revenue by ministry, and expenditure by location).

6.2.2 Recurrent Revenue by Category

Collection from tax revenue¹² is expected to increase by 9.1 percent or \$27.9m in FY 2026 relative to the revised FY 2025 estimates, which will represent a \$37.0m or 12.4 percent increase in comparison to the original FY 2025 figure. While the trend for increasing tax collection is expected to be sustained over the medium-term, this is despite the Government's commitment to ensure that there will be no increases in tax rates, and no introduction of any new taxes in FY 2026 and over the medium-term. Instead, the increased collection results from the expected improvement in tax compliance levels and the increasing effectiveness of tax and revenue administration systems. Additionally, the expected increase in economic growth, trade, and income levels will support higher tax revenue collection over the next medium-term.

Table 13: Total Recurrent Revenue by Category (\$m).

Revenue by Category	Actuals FY2020 (\$m)	Actuals FY2021 (\$m)	Actuals FY2022 (\$m)	Actuals FY2023 (\$m)	Provisional FY2024 (\$m)	Original Estimates FY2025 (\$m)	Revised Estimates FY2025 (\$m)	Estimates FY2026 (\$m)	Projection FY2027(\$m)	Projection FY2028 (\$m)
Income Tax	52.5	48.6	55.6	58.0	66.3	68.8	76.6	78.7	92.7	97.5
Trade Taxes	18.1	18.2	20.4	25.8	25.0	30.0	29.0	33.2	38.0	39.7
Tax on Goods & Services	95.0	106.9	109.1	128.3	132.6	138.8	142.5	145.0	152.5	154.2
Excise Tax	64.0	63.7	65.7	66.0	68.7	59.9	58.5	77.6	81.4	85.1
Fees & Licenses	28.1	24.0	20.8	27.6	28.5	25.4	20.7	44.9	54.7	54.3
Entrepreneurial & Property	21.2	14.7	9.5	9.9	25.4	28.2	33.9	39.5	40.9	40.2
Miscellaneous	1.6	0.4	0.8	0.5	1.1	0.5	1.0	0.9	1.9	2.0
Capital & Transfers	32.4	35.2	16.2	36.5	14.4	33.7	31.9	64.0	32.9	28.2
Budget Support	37.6	27.2	52.1	53.7	70.7	93.1	99.5	120.2	82.2	81.3
Grand Total	350.5	338.9	350.2	406.3	432.7	478.3	493.6	604.0	577.2	582.5

Source: Ministry of Finance (MOF)

Over the past five years, tax on *goods and services* has consistently represented the largest element of tax revenues. A total of 36.2 percent of domestic revenue is collected from goods and services tax, which is expected to increase in FY 2026 to \$145m, which would represent a 1.8 percent increase from the revised FY 2025 estimates. This increase results from increasing returns from consumption tax collected domestically and on imports, reflecting the rising volume of imports required to support domestic economic activities, but also the impact of rising prices. Consumption tax returns are also boosted by the ongoing efforts to improve tax compliance and administration, such as the implementation of the Electronic Sales Register System.

The second largest share of tax revenues is collected from the *income tax*, which accounts for 19.4 percent of domestic revenues, and which is expected to increase to \$78.7m in FY 2026, representing a 2.7 percent increase from the FY 2025 revised estimates. This increase is supported by increasing revenues from corporate taxes and the increased income tax revenue resulting from health and education civil servants' revised remuneration packages.

The third largest share of tax revenues is collected from excise tax, which accounts for 14.8 percent of total domestic revenues, and is expected to increase to \$77.6m in FY 2026, representing a 32.7 percent increase from the revised estimates in FY 2025. Excise taxes also form a key part of the Government's strategy to reduce Non-Communicable Diseases by discouraging consumption of unhealthy products. The estimates FY 2026 for excise taxes also reflect the reporting adjustment of revolving funds, which is now classified under the recurrent budget as opposed to the development budget.

In FY 2026, non-tax revenues are expected to reach \$149.2m, representing a 70.7 percent increase, or a rise of \$61.8m from the FY 2025 revised estimates. This increase is driven by increase in bond receipts

¹² (inclusive of income tax, trade tax, tax on goods and services, excise tax)

by \$28.6m and principal repayments from on-lent to public enterprises by \$10.6m which are to support the Private Sector initiative. There is also the review of the Government's current fees and charges, which will seek to fund improvements in the accessibility and quality of services which face increasing demands from the public. It is expected that there will be a further increase in dividends from the National Reserve Bank of Tonga, with the total value rising to \$30.0m in FY 2026 from the \$18.0m recorded in FY 2025.

6.2.3 Recurrent Expenditure by Ministry

Overall, the majority of MDAs' allocations will increase in FY 2026. Allocations will however be affected by MDA performance under the performance management system, while the Government will also reduce funding allocations linked to vacancies by 60 percent for the majority of MDAs, and 28 percent for Ministry of Health and Ministry of Education and Training.

Table 14: Recurrent Expenditure by Ministry (\$m).

Expenditure by MDA	Actuals FY2020 (\$m)	Actuals FY2021 (\$m)	Actuals FY2022 (\$m)	Actuals FY2023 (\$m)	Provisional FY2024 (\$m)	Original Estimates FY2025 (\$m)	Revised Estimates FY2025 (\$m)	Estimates FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)
Palace Office	4.3	3.1	3.6	4.1	4.3	4.9	4.7	5.0	5.0	5.3
Office of the Legislative Assembly	11.2	13.0	16.4	15.7	15.5	16.0	17.1	16.1	16.1	16.1
Office of the Auditor General	1.5	1.5	1.5	1.9	1.9	2.2	1.9	2.3	2.3	2.3
Office of the Ombudsman	1.3	1.8	1.6	1.5	1.5	1.7	1.4	1.6	1.6	1.6
Ministry of Foreign Affairs	9.7	11.5	13.8	13.9	14.4	14.3	14.7	18.5	17.8	22.2
His Majesty's Armed Forces	10.1	10.5	10.9	11.5	11.9	12.3	12.3	14.1	13.9	13.9
Prime Minister's Office	3.7	4.2	8.1	9.6	9.6	13.7	13.0	13.2	11.9	11.4
Ministry of Finance	83.0	81.0	86.5	107.6	108.2	133.6	121.7	169.7	154.1	159.4
Ministry of Revenue & Customs	8.6	8.2	10.0	10.6	9.8	11.2	11.0	16.1	13.1	13.8
Ministry of Public Enterprises	1.2	1.2	1.3	1.3	1.5	1.9	1.8	2.1	2.1	2.1
Ministry of Trade and Economic Development	5.4	6.2	7.2	7.2	6.5	7.4	7.5	6.2	6.2	6.2
Ministry of Justice	5.5	6.4	6.4	7.3	7.6	8.0	7.6	7.4	7.4	7.4
Office of Electoral Commission	0.6	0.5	0.8	0.8	0.6	1.0	0.6	1.2	1.2	1.2
Prisons Department	4.5	4.1	4.4	4.9	4.7	4.3	5.3	8.2	9.6	8.7
Attorney General's Office	2.8	3.0	3.1	3.1	2.9	3.4	2.9	3.3	3.5	3.5
Ministry of Tonga Police	13.6	14.0	15.2	12.4	13.6	14.2	14.9	19.0	19.0	19.0
Ministry of Health	43.5	47.6	55.8	52.4	58.6	56.2	59.1	80.5	57.2	58.2
Ministry of Education & Training	56.6	56.5	55.3	59.0	64.3	70.9	72.3	74.8	75.2	72.8
Ministry of Internal Affairs	7.3	7.7	4.4	5.3	7.3	16.7	17.4	23.2	20.2	20.7
Ministry of Agriculture, Food & Forest	9.3	9.5	9.3	9.4	9.3	13.0	12.5	11.3	11.3	11.3
Ministry of Infrastructure	23.8	23.5	14.4	21.0	19.6	25.1	24.3	66.4	50.6	53.8
Ministry of Lands & Natural Resources	4.8	4.8	5.4	6.0	6.2	6.7	5.9	6.3	26.3	21.3
Office of the Public Service Commission	1.8	1.8	1.8	1.9	2.0	2.1	1.8	3.1	4.3	5.1
Statistics Department	2.9	2.9	3.4	2.6	2.8	3.0	2.4	2.9	3.2	3.2
MEIDECC	7.6	7.7	7.8	8.0	8.3	10.3	8.5	10.8	10.8	11.4
Ministry of Fisheries	4.3	4.1	4.4	4.6	3.9	7.6	5.6	5.4	5.3	5.3
Ministry of Tourism	4.1	7.0	7.0	7.3	7.5	10.5	11.5	7.2	7.2	7.2
Tonga Fire & Emergency Services Department	-	-	-	4.0	4.5	5.1	5.3	5.4	5.4	5.4
Office of the Anti-Corruption Commissioner	-	-	-	-	0.2	0.9	1.1	1.7	1.7	1.7
Grand Total	332.6	343.6	359.8	394.9	409.0	478.3	466.0	603.0	563.6	571.5

Source: Ministry of Finance (MOF)

Notably, the Ministry with the greatest increase in allocation in FY 2026 is the Ministry of Finance, for which funding will increase by \$48m from the revised estimate of \$121.7m. The increase primarily results from the government general fund that centralizes payments for government-wide services (e.g. \$56.4m for Economic Growth fund - in support of the Private Sector Initiative).

This is followed by the Ministry of Infrastructure, for which funding will increase by \$42.1m from the \$24.3m in the revised FY 2025 budget. This increase primarily results from the additional \$20.0m allocated for road maintenance, the \$20.0m allocated for the Fanga'uta SECURE Bridge, and the \$6.7m allocated for Affordable Housing.

Ministry of Health is the third largest, and will receive an increased FY 2026 funding allocation with a rise of \$21.4m from the \$59.1m allocated in the revised FY2025 budget. This increase will cover

\$24.0m for new buildings, including \$6.0m for the Nursing School (Australian Budget Support), \$7.0m for the Heart Project - Vava'u Hospital (Australian Budget Support), \$10.0m for Health Centers (New Zealand Budget Support), and \$1.0m for the Rehabilitation Center (New Zealand Budget Support).

6.2.4 Recurrent Revenues by Ministry

Revenue targets for ministries for FY 2026 will vary in accordance with FY 2025 performance, with the Government seeking to move towards more realistic levels in-line with the average collection over the past 5 years.

Table 15: Recurrent Revenue by Ministry (\$m).

Revenue by MDA	Actuals FY2020 (\$m)	Actuals FY 2021 (\$m)	Actuals FY2022 (\$m)	Actuals FY2023 (\$m)	Provisional FY2024 (\$m)	Original Estimates 2025 (\$m)	Revised Estimates FY2025 (\$m)	Estimates FY2026 (\$m)	Projection FY2027 (\$m)	Projection n FY2028 (\$m)
Office of the Auditor General	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.1	0.3	0.3
Ministry of Foreign Affairs	2.4	1.4	1.8	4.2	3.8	4.3	3.8	4.5	7.0	6.8
His Majesty's Armed Forces	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prime Minister's Office	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.3	0.3	0.3
Ministry of Finance	90.8	72.0	75.5	99.0	110.6	148.4	160.3	185.7	156.9	151.2
Ministry of Revenue & Customs	227.1	235.3	247.2	274.0	287.9	299.4	307.7	332.9	358.2	369.6
Ministry of Public Enterprises	7.5	7.8	5.9	5.5	4.7	5.0	4.2	5.2	5.3	5.5
Ministry of Trade and Economic Development	0.7	0.6	0.6	0.7	0.7	0.8	0.7	0.8	0.8	0.8
Ministry of Justice	1.3	1.1	1.0	1.3	1.4	1.6	1.4	1.2	1.3	1.2
Office of Electoral Commission	0	-	-	-	-	-	-	0.1	0.1	0.1
Prisons Department	0.5	0.5	0.6	0.6	0.5	0.5	0.6	2.4	0.9	0.8
Ministry of Tonga Police	0.4	0.6	0.7	1.1	1.0	1.3	1.1	1.0	1.1	1.1
Ministry of Health	1.1	1.1	1.2	1.1	0.9	1.2	0.9	24.2	1.3	1.3
Ministry of Education & Training	2.5	2.8	2.5	2.6	2.0	1.3	1.4	2.1	2.3	2.2
Ministry of Internal Affairs	0.0	0.1	0.0	0.1	0.1	0.1	0.0	0.3	0.2	0.2
Ministry of Agriculture, Food & Forest	1.2	1.1	1.0	1.3	1.4	1.6	1.3	1.5	1.6	1.6
Ministry of Infrastructure	9.8	8.5	7.1	9.2	11.3	6.3	4.7	31.9	25.6	25.3
Ministry of Lands & Natural Resources	1.0	0.8	0.7	0.9	1.2	1.1	0.8	1.2	2.4	2.4
Statistics Department	-	-	-	-	-	-	-	0.2	0.0	0.0
MEIDEC	0.5	0.8	1.4	1.1	1.0	1.1	0.9	2.0	2.7	2.7
Ministry of Fisheries	3.5	4.2	2.8	3.3	3.5	3.9	3.2	3.5	5.5	5.5
Ministry of Tourism	0.2	0.1	0.1	0.1	0.2	0.3	0.2	3.0	3.8	3.7
Grand Total	350.5	338.9	350.2	406.3	432.7	478.3	493.6	604.0	577.2	582.5

Source: Ministry of Finance (MOF)

Notably, Ministry of Infrastructure expects an increase in FY2026 of \$27.1m, or 570.8 percent from the \$4.7m recorded in the revised FY2025 budget, primarily due to the \$20m allocated for road maintenance.

This is followed by the Ministry of Finance, which is expected to record an increase in revenue to \$185.7m for FY2026 from the \$160.3m recorded in the revised FY2025 budget. This is driven by Government bond receipts of \$43.6m and Budget supports.

This is followed by the Ministry of Revenue & Customs, which is expected to record an increase in revenue to \$332.9m from the \$307.7m recorded in the revised FY2025 budget. This increase will mainly result from improved tax administration and compliance efforts.

The Ministry of Health is also expecting a significant increase due to New Zealand budget support of \$10m for health centers/clinic and Australian budget support \$7m for Vava'u Hospital - Heart Project and \$6m for Nursing School.

6.2.5 Recurrent Expenditure by Location

Regarding the distribution of recurrent budget by location, Tongatapu is in receipt of the largest proportion of the recurrent budget allocation, averaging at over 65 percent per annum. This is expected given elevated population density, although the share of the recurrent budget received by Tongatapu is

expected decrease slight in FY 2026 to 60 percent as a result of the need to increase allocations for the overseas missions \$1.5m for Atalanga and \$2.1m for the Suva Mission that is to be established soon.

Table 16: Recurrent Expenditure by Location (\$m)¹.

Location	Actuals FY2020 (\$m)	Actuals FY2021 (\$m)	Actuals FY2022 (\$m)	Actuals FY2023 (\$m)	Provisional FY2024 (\$m)	Original Estimates FY2025 (\$m)	Revised Estimates FY2025 (\$m)	Estimates FY2026 (\$m)	Projection FY2027(\$m)	Projectio n FY2028 (\$m)
Nationwide	89.5	93.9	93.9	110.2	93.3	137.4	127.6	178.8	153.7	148.2
Tongatapu	206.3	205.6	223.2	238.4	266.1	289.0	287.9	355.6	346.6	357.4
Vava'u	12.7	16.5	15.0	16.3	18.7	19.6	18.4	29.0	24.1	22.6
Ha'apai	7.3	8.6	7.9	8.8	9.7	10.0	10.0	11.0	11.3	11.3
Eua	5.8	6.8	5.7	6.2	6.6	7.1	6.6	8.9	8.8	8.8
Niuafo'ou	1.9	1.9	1.9	2.3	2.5	2.8	2.6	2.9	3.0	3.0
Niuafo'ou	1.4	1.4	1.4	1.5	1.7	1.7	1.6	1.9	1.9	1.9
Overseas Missions	7.7	9.0	10.9	11.1	10.3	10.7	11.4	14.9	14.2	18.3
Grand Total	332.6	343.6	359.8	394.9	409.0	478.3	466.0	603.0	563.6	571.5

¹Funding allocations for national programs are distributed across regions in-line with population (Tonga Statistic Department 2021 Census).

Source: Ministry of Finance (MOF)

6.3 Development Budget

The Development Budget Estimates for FY 2026 presented in Table 17 shows grant support equivalent to \$389.8m, comprising of \$145.9m cash grant transfers (37.4 percent of total) and \$243.9m *in-kind* grant transfers (62.5 percent) respectively.

When compared to the previous year the total funding provided for FY 2026 has decreased by \$62.1m, a decline of 13.7 percent.

Table 17: Development Budget Estimate (\$m), FY 2026

Envelope	Provisional FY2024 (\$m)	Original Estimate FY2025 (\$m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)	% FY2026
Cash	123.1	216.9	113.6	145.9	102.9	108.4	37.4
In-kind	211.9	235.0	261.6	243.9	264.4	237.7	62.6
Grand Total	335.0	451.9	375.2	389.8	367.3	346.2	100.0

Source: Ministry of Finance.

The cash component has declined by 32.7 percent from FY 2025 to FY 2026, which is due to several factors. These include the re-design of certain initiatives at the request of the Government, internal policy changes in the administration of development support to allow for more effective project prioritization, and the increasing prevalence of development support being provided via disaster contingency funds, which are triggered only in a state of emergency. In addition, various projects with a large cash funding component will close before the end of the FY 2025, including the Skills & Employment Tonga project, the Pathway to Sustainable Oceans project, and the Digital Government project.

The increase of 3.8 percent in *in-kind* contribution from FY 2025 to FY 2026 is due to new projects already in advanced stages of preparation, including the Tonga Sustainable Economic Corridors and Urban Resilience Enhancement (SECURE) project, the long-line fishing vessels, the bio-gas production project, and the additional funding to women-owned SMEs under the Sustainable Women Entrepreneurship and Innovative Finance Project.

There are also major projects with a significant *in-kind* funding component which are wrapping up in FY 2025, including the Tonga High School Sports Complex, the wind power project located in Lapaha, the Pathway to Sustainable Oceans project, the Tonga Digital Government Support project, and the

Tonga Climate Resilient Transport Project I. The Tonga Renewable Energy Project, the upgrades to the Royal Tomb (Mala'ekula), and the Nuku'alofa Port Upgrade Project are closing towards the end of calendar year 2025.

6.3.1 Development Expenditure by Ministry

The Ministry of Finance receives the largest share of development funding, totaling \$71.9m (18.2 percent of total development funding), followed by the Ministry of Infrastructure with \$64.0m (16.2 percent). The Ministry of Education and Training was allocated \$41.5m (10.5 percent) and the Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Climate Change and Communications (MEIDECC) received \$41.0m (10.2 percent). Other line ministries also implement development-funded projects across various thematic areas.

Table 18: Development Budget Estimate by Ministry (\$m)

MDA	Provisional FY2024 (\$m)	Original Estimate FY2025 (\$m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)	% FY2026
Attorney General's Office	0.2	0.2	0.2	0.4	0.2	0.2	0.1
His Majesty's Armed Forces	10.5	2.7	2.4	3.0	3.9	4.9	0.8
Legislative Assembly	0.5	10.1	0.3	10.6	30.6	18.6	2.7
Ministry of Agriculture, Food & Forests	2.7	2.5	0.9	24.8	2.8	1.7	6.4
Ministry of Education & Training	47.1	66.8	49.6	41.5	38.1	38.3	10.6
Ministry of Finance	39.6	83.5	31.7	71.9	22.5	32.4	18.5
Ministry of Fire & Services	1.2	2.1	1.9	2.8	2.7	2.7	0.7
Ministry of Fisheries	4.1	5.0	3.3	32.1	37.2	18.9	8.2
Ministry of Foreign Affairs	0.6	0.8	0.7	1.0	0.8	0.7	0.3
Ministry of Health	12.4	21.8	13.0	16.6	17.3	17.8	4.3
Ministry of Infrastructure	118.3	120.2	123.9	64.0	149.9	161.3	16.4
Ministry of Internal Affairs	7.2	18.1	11.2	13.4	10.8	10.1	3.4
Ministry of Justice and Prison	0.3	3.8	0.1	0.9	0.2	0.2	0.2
Ministry of Lands & Natural Resources	6.8	5.9	7.7	11.2	11.9	2.9	2.9
MEIDECC	55.1	63.9	65.4	41.0	28.3	26.1	10.5
Ministry of Police	0.8	3.2	7.8	1.8	0.7	0.7	0.5
Ministry of Public Enterprises	18.4	25.0	43.3	36.0	1.1	0.0	9.2
Ministry of Revenue & Custom	0.0	0.2	0.1	7.0	0.0	0.0	1.8
Ministry of Tourism	1.2	6.7	0.0	0.3	1.1	2.0	0.1
Ministry of Trade and Economic Development	0.2	0.2	0.3	2.5	2.3	0.1	0.6
Ombudsman	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Palace Office	0.0	0.0	0.0	0.3	0.0	0.0	0.1
Prime Minister's Office	6.9	8.5	9.9	5.0	4.3	6.3	1.3
Public Service Commission	0.1	0.1	0.1	0.2	0.1	0.1	0.1
Statistics Department	0.8	0.7	1.2	1.3	0.0	0.0	0.3
Tonga Office of the Auditor General	0.2	0.2	0.3	0.3	0.3	0.3	0.1
Grand Total	335.0	451.9	375.2	389.8	367.3	346.2	100.0

Source: Ministry of Finance.

Ministry of Finance

The estimated budget for the Ministry of Finance for FY 2026 is \$71.9m, which is a decrease of \$11.6m compared to FY 2025. This reduction is primarily due to a reformed approach to the classification of development funding, under which budget allocations related to the ADB Contingent Development Fund and the WB Catastrophe Deferred Drawdown Option (Cat-DDO) are not registered since under these arrangements funding will only trigger in the event that a national emergency is declared. Additionally, revised budgeting practices have seen all additional budget support funds transition from the development budget to the recurrent budget even when funding projects. This does not result in any changes to the overall budget funding, but the reallocation does result in a significant shift in the ancillary development and recurrent budgets. Other contributing factors include the Economic and Public Sector Reform Program, which is now recognized under the Public Service Commission as the program's lead agency, the closure of both the ADB-funded training and workshops and the Affordable Housing initiative funded by the Government of India.

However, this decline is partially offset by the expected implementation of several major projects in FY 2026. These include the Sustainable Women Entrepreneurship and Innovative Finance Project funded by ADB, the Pacific Catastrophe Risk Insurance Company (PCRIC) which includes additional support from the Global Shield initiative, the ADB Local Currency Bond Issuance, the Tonga National Museum funded by Saudi Arabia, and the Non-Project Grant Aid (NPGA) which is provided by the Government of Japan. These initiatives are expected to drive progress in areas such as economic resilience, financial innovation, cultural preservation, and inclusive development.

Ministry of Infrastructure

The estimated budget for the Ministry of Infrastructure in FY 2026 is \$64.0m, marking a significant decrease from the \$56.2m received in FY 2025. This reduction reflects the phasing out of the Nuku'alofa Ports upgrade project which will complete in August 2025, and the internal policy adjustments to which will reallocate revolving funds to be recognized under the recurrent budget. Major projects are phase out over 2025, with the reconstruction of residential housing following the HTHH disaster expected to wrap up in June, while the Tonga Climate Resilient Transport Project Phase I has already completed as of December 2024.

The Tonga SECURE project will commence early in 2026 under the Ministry of Infrastructure. This major new infrastructure initiative will encompass the construction of the Fanga'uta Lagoon Bridge, associated access roads, and drainage systems.

Ministry of Education and Training

The allocated budget for the Ministry of Education & Training in FY 2026 is \$41.5m, representing a decrease of \$25.3m compared to FY 2025. This reduction is largely attributed to the scheduled completion of the National Sports Complex in the first quarter of FY 2025, the transition of funding for the Queen Salote Nursing School to be recognized under the recurrent budget, and the closure of the Skills and Employment for Tongans project in December 2024. Major projects which will continue into FY 2026 include the Skills & Attributes from TVET System project, the System Transformation Grant, and the Inclusive Education Program. The Tonga College Dormitories project is now completed, although, this initiative was one component of the wider Tonga Resilient and Safe School Project, which will continue in FY 2026 focusing on the re-construction of schools identified as vulnerable to tsunamis and other risks.

Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Climate Change and Communications (MEIDECC)

The estimated budget for MEIDECC for FY 2026 is \$41.0, reflecting a significant decrease of \$22.9 compared to FY 2025. This reduction is primarily due to the scheduled completion of the Tonga Renewable Energy Project (TREP) in September 2025, the Wind Power Station in December 2024, and the Pacific Resilience Program (PREP) which is expected to close by April 2026.

Key projects scheduled for implementation in FY 2026 include the continuation of the Nuku'alofa Network Upgrade Project and the commencement of the Tonga Grid Enhancement for Sustainable Energy Transition Project. Also continuing into FY 2026 are the activities under the Tonga Climate Change Trust Fund, the GGGI Support Programme, the construction of the National Emergency Management Office warehouse in Ha'apai, the Tonga Coastal Resilience Project, which includes the upgrading of the Hahake foreshore and the implementing of the ClimSA Project, and the continuation of the Tonga Digital Transformational Project, previously housed under the Prime Minister's Office.

6.3.2 Development Expenditure by Development Partners

International development assistance continues to play a vital role in supporting Tonga's national development by complementing domestic resources and enabling the achievement of the government's strategic vision. Programs funded by multilateral development banks are currently delivered mainly through 100 percent grant arrangements. Key multilateral partners—including the World Bank (WB), Asian Development Bank (ADB), Green Climate Fund (GCF) and various United Nations agencies—provide substantial investments in major government projects through technical cooperation and financial support. In addition, bilateral development partners such as the Governments of Australia, New Zealand, The People's Republic of China, Japan, Saudi Arabia, and the Council of Regional Organizations in the Pacific (CROP agencies) continues to contribute significantly to Tonga's development efforts.

Table 19: Development Budget Estimate by Development Partner (\$m)¹

Development Partners	Provisional Actual FY2024 (\$m)	Original Estimate FY2025 (\$m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)	% FY2026
Asian Development Bank (ADB)	78.2	67.5	75.8	90.6	102.9	111.8	23.2
Australia Bilateral Assistance	51.0	62.5	23.9	32.7	19.5	15.2	8.4
Australian - Other	2.6	2.4	2.9	3.5	4.1	3.8	0.9
Australian Defence Cooperation	4.7	1.5	1.3	2.4	3.4	4.4	0.6
China - Other	0.0	0.2	0.2	0.2	0.0	0.0	0.1
COVID-19 Pooled Funds	1.7	0.3	1.9	2.2	0.0	0.0	0.6
Disaster Donors	0.0	3.2	6.9	1.4	0.0	0.0	0.4
European Union	2.1	3.1	0.0	0.3	1.8	1.4	0.1
Food & Agriculture Organisation (FAO)	0.0	1.3	0.5	1.4	1.3	1.3	0.4
Forum Fisheries Agencies (FFA)	0.1	0.6	0.0	0.4	0.3	0.3	0.1
Green Climate Fund	0.0	8.8	15.4	2.0	3.0	8.0	0.5
IFAD	1.7	0.3	2.9	2.0	2.0	4.0	0.5
India Fund	0.0	0.1	0.0	0.0	0.0	0.0	0.0
International Organisation for Migration	0.1	0.6	0.5	1.2	0.5	0.5	0.3
International Union for Conservation (IUC)	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Japan - JICA	2.0	8.3	20.3	10.3	28.2	41.6	2.6
Japan - Other	0.0	0.0	0.0	0.3	0.2	0.1	0.1
Korean Fund	1.2	1.0	0.6	1.0	1.0	1.0	0.3
Local Contributions	0.0	0.0	0.2	0.8	0.0	0.0	0.2
New Zealand Bilateral	33.1	41.5	17.9	27.0	20.1	13.6	6.9
New Zealand Non-Government	2.5	7.5	2.8	7.3	5.4	5.0	1.9
NZ - Other Government	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Other Donor	0.4	1.5	2.5	4.4	1.5	1.5	1.1
Pacific Islands Forum Secretariat (PIFS)	0.0	1.5	1.4	0.0	0.0	0.0	0.0
The People's Republic of China	36.9	72.8	71.0	58.5	37.6	0.9	15.0
Pooled Funds - Australia & NZ	18.7	15.1	41.7	46.0	30.5	18.5	11.8
Receipt for Revolving Fund	0.0	35.7	30.6	0.0	0.0	0.0	0.0
Saudi Arabia Government	1.1	7.9	2.4	6.1	0.0	0.0	1.6
Secretariat of the Pacific Community (SPC)	0.3	0.0	0.6	1.6	1.5	0.0	0.4
South Pacific Regional Environmental Prc	0.1	0.2	0.5	1.4	0.0	0.0	0.4
Tonga Health Promotion Foundation	0.5	0.5	0.0	0.0	0.0	0.0	0.0
UN Economic & Social Commission for A:	0.1	0.0	0.0	0.0	0.0	0.0	0.0
UN Family Planning Association (UNFPA)	0.0	0.2	0.2	0.1	0.1	0.1	0.0
UN International Children's Fund (UNICEF)	1.0	0.3	0.9	0.5	0.0	0.0	0.1
UN Women	0.0	0.2	0.0	0.2	0.2	0.2	0.0
UNESCO	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Unidentified Donor	0.2	7.6	0.2	0.0	0.0	0.0	0.0
United Nation Convention on the Law of tt	0.0	0.5	0.0	0.5	0.5	0.5	0.1
United National Development Program (L	0.8	2.3	1.8	2.3	1.5	0.5	0.6
United Nations Environment Program	0.1	0.0	0.5	1.0	0.1	0.0	0.2
United Nations Operations Project Servic	1.0	2.4	1.5	1.9	1.6	1.0	0.5
USA Government	0.0	0.1	0.1	0.1	0.1	0.1	0.0
USA Other Govt	0.0	0.0	0.0	0.3	1.0	2.0	0.1
Western Central Pacific Fisheries Comm	0.0	0.0	0.0	0.1	0.0	0.0	0.0
World Bank/International Development A	91.8	92.2	44.9	71.3	91.5	102.7	18.3
World Health Organisation (WHO)	0.5	0.1	0.3	0.3	0.3	0.3	0.1
GGGI	0.0	0.0	0.0	4.5	4.0	4.0	1.2
Clean Energy Fund	0.0	0.0	0.0	0.6	0.9	1.2	0.2
LDS Tonga	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Tonga Offshore Mining Ltd	0.1	0.0	0.0	0.2	0.1	0.0	0.0
Canada	0.0	0.1	0.1	0.8	0.7	0.7	0.2
Grand Total	335.0	451.9	375.2	389.8	367.3	346.2	100.0

Source: Ministry of Finance.

¹ The composition of *Other Donor* covers Pasai, the International Ombudsman Institute of Austria, PICRIC as well as other minor donors.

Additional information on development partner funding is provided in Annex V.

6.3.3 Development Expenditure by Location

Table 20 presents the distribution of the development budget by geographic location, including Tongatapu, Vava'u, Ha'apai, 'Eua, and the two Niuas.

Table 20: Development Budget Estimate by Location (\$m)¹

Location	Provisional FY2024 (\$m)	Original Estimate FY2025 (\$m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)	% FY2026
Eua	12.5	17.5	8.1	16.7	12.6	10.6	4.3
Ha'apai	21.2	17.9	18.0	18.7	12.5	10.2	4.8
Niuafu'ou	4.0	3.3	7.4	0.9	0.5	0.4	0.2
Niuaotuputapu	1.0	1.4	1.0	1.5	0.9	0.7	0.4
Tongatapu	259.9	368.5	312.5	316.0	313.9	297.5	81.1
Vava'u	36.5	43.0	28.2	36.0	26.9	26.7	9.2
Grand Total	335.0	451.9	375.2	389.8	367.3	346.2	100.0

Source: Ministry of Finance.

Tongatapu benefits from the majority of the location-specific funding and receives the highest provision of the total budget, with funding of \$316.0m (81.1 percent). This covers major projects such as the new sustainable women's entrepreneurship and innovative finance projects, ADB local currency bond, the Tonga grid enhancement for sustainable energy transition project, the construction of Parliament House, the GGGI support program, the Tonga SECURE Project, the Nuku'alofa network upgrade project, the overseas medical treatment scheme, the Tonga Climate Resilient Transport Project II, Tonga Australia gender equality project, and non-project grant aid from Japan.

Projects with major components or activities related to the outer islands are as follows:

- **Vava'u:** The outer-island of Vava'u is allocated an estimate of \$36.0m which comprises the Tonga Renewable Energy installation of batteries and mini-grids to Ofu is due to complete in June 2025. Phase 12 of the Tonga renewable energy project was commissioned in December 2024 and will extend to Vava'u while also supplying new mini-grids to Hunga, 'Otea, and Falevai, with Ofu having been completed in February 2025. The Tonga Climate Resilience Transport Project II will include the Vava'u roads project – work is underway on Vava'u Southwest V2 (\$4.0m) and Vava'u Southwest V12 (\$2.9m). Additionally, the procurement of new fire trucks for Vava'u airport is complete, the HEART project covering the re-construction of Vava'u Hospital is in the preparatory phase, and the ozone depleting substances project and the Tonga Health System Support Program Phase III will both also continue into FY 2026. The Aged care center is also expected to be constructed in Vava'u in the upcoming fiscal year.
- **Ha'apai:** Ha'apai has an allocation of \$18.7m which covers the Tonga Renewable Energy Project has completed the installation of batteries and mini-grids in Ha'apai outer island, and the installation of mini-grids, solar, and battery-hybrid systems in Mo'unga'one, and Tungua. Also extending into FY 2026 are the construction of the National Disaster Risk Management Office, the Tonga Health System Support Program Phase III and the new road designs for Ha'apai (HP-A34, Main Road 2) under Tonga Climate Resilience Transport project phase II. In the maritime sector, the project will also conduct a feasibility study for Ha'apai wharf, while navigation systems for Ha'apai outer island have been delivered and the fire truck for Ha'apai airport has been procured with the contract signed. In the education sector, contracts have been

signed for the Tonga Safer Schools project which now turns to targeting the construction of classrooms in Nomuka, with Fonoï and Tungua to be completed by the end calendar year 2025. The overarching project will include 3 government schools and 3 non-govt schools, with contracts signed and construction targeted to also complete by the end of calendar year 2025.

- **‘Eua:** The Development Budget allocated for ‘Eua in FY 2026 is \$16.7m. It comprises assistance mainly from the Tonga Health System Support Program Phase III and the Tonga Climate Resilience Transport project phase II that includes the ‘Eua Road maintenance, the construction for the Nāfanua wharf, the delivery of new fire trucks for Eua airports, Kaufana Airport runway resurfacing, and the Nafanua Wharf Bridge Reconstruction, all of which are expected to commence in FY2026.
- **Niuafo’ou & Niuatoputapu:** The Tonga Renewable Energy project completed the installation of batteries and mini-grids in Niuafo’ou, while the construction of Niuafo’ou wharf was completed in late 2024 by the Tonga Climate Resilience Transport 1 Project. The Tonga Health System Support Program Phase III is currently progressing support to the health centers in the two islands.

6.4 Budget Presented in the GFS Format

The Government Financial Statistics (GFS) presented below provides a detailed overview of the Government's fiscal position in accordance with internationally recognized reporting standards. The Government **fiscal performance** over the medium-term is expected to result in the maintenance of a stable and prudent fiscal position, supported by steady revenue growth, sustained grant inflows, and the careful management of expenditures and capital investments.

Table 21: GFS

	Provisional FY2024 (\$m)	Original Estimates FY2025 (\$m)	Revised Estimates FY2025 (\$m)	Estimates FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)
Revenue	735.1	896.5	840.0	929.7	911.5	900.4
Taxes	300.0	327.7	335.2	347.1	379.3	390.9
Grants	386.9	514.2	447.7	509.2	449.5	427.5
Current	70.7	93.1	99.5	120.2	82.2	81.3
Capital	316.2	421.1	348.2	389.0	367.3	346.2
Other revenue	48.2	54.5	57.1	73.4	82.7	82.0
Expense	492.0	611.9	526.2	621.9	545.3	555.7
Compensation of employees	164.7	189.6	180.4	192.9	193.2	193.7
Use of goods and services	235.6	293.7	228.7	314.3	248.8	251.6
Interest	7.4	6.9	6.9	5.9	5.1	4.3
Subsidies	1.1	1.3	1.7	1.3	1.3	1.3
Grants	26.4	44.2	43.6	38.4	28.3	21.7
Social benefits	29.4	28.4	30.7	33.1	30.1	30.1
Other expense	27.4	47.7	34.1	35.9	38.4	52.9
Gross Operating Balance	243.1	284.6	313.8	307.8	366.2	344.7
Net Acquisition Of Nonfinancial Assets	189.3	234.8	236.0	252.4	285.9	265.2
Fixed assets	188.1	230.3	232.4	248.3	261.6	245.9
Nonproduced assets	1.2	4.5	3.6	4.1	24.3	19.3
Net Lending/Borrowing Requirement	53.9	49.8	78.0	55.5	80.4	79.6
Net Acquisition Of Financial Assets And Liabilities (Financing)	-53.9	-49.8	-78.0	-55.5	-80.4	-79.6
Financial Assets	-10.4	-2.8	-29.4	-37.1	-30.7	-28.0
Financial Liabilities	-43.4	-46.9	-48.5	-18.4	-49.7	-51.6

Source: Ministry of Finance.

The outlook for **revenue performance** is favorable, with total revenue expected to increase from a revised estimate of \$840.0 m in FY 2025 to reach \$929.7m in FY 2026. Revenue is then expected to moderate slightly in the outer years but will still remain above \$900m into FY 2028. The growth in revenue will be primarily driven by a steady increase in tax revenue, which is expected to rise from a revised estimate of \$335.2m in FY 2025 to \$347.1m by FY 2026. This increased revenue reflects ongoing revenue mobilization efforts, as well as the expectation of a continued recovery in the broader economy following the pandemic and HTHH disaster. Grant financing will continue to play a significant role in supporting government operations and capital projects, with current projections indicating that this measure will increase in FY 2026 although the medium-term forecast indicates that this will revert to below FY 2025 levels by FY 2028.

Total expenses are expected to rise from a revised estimate of \$526.2m FY 2025 to \$621.9 m in FY 2026 before decreasing over the medium-term as the Government's reform of public spending takes hold. The FY 2026 increase is primarily driven by increased levels of operational spend related to the initiation of special infrastructure and capital projects, which the Government has prioritized as part of its ongoing commitment to development. Notably, operational expenses are expected to decline over the medium-term, with total expenses in FY 2028 reverting to FY 2025 levels.

The **net lending/borrowing requirement** shows a fiscal surplus of \$55.5m in FY 2026, a decrease from the \$78.0m in the FY 2025 Revised Estimate. This surplus is expected to grow over the medium-term to FY 2028 despite increasing levels of capital spending on Government and development projects as the increase will be offset by the expected drop in expenses. As the total external debt situation continues to improve the possibility of Tonga being removed for high debt stress must be monitored. This will result in ADB and World Bank funding reverting to part loan funding having implications for fiscal management.

Overall financing needs remain manageable, with net financing requirements reflecting the government's ongoing capacity to maintain fiscal stability while sustaining current levels of investment in operational and capital programs.

7 CONCLUSION

The FY 2026 Budget is focused on fostering a prosperous, productive economy for the benefit of all Tongans. To achieve this ambition, the Government has identified three overarching objectives for the Budget, with improving national resilience, expanding social sector development, and accelerating economic and public sector development considered vital to Tonga's ongoing development.

The FY2026 budget will result in a deficit of \$29.1m as the Government invests in the vital infrastructure projects necessary to drive growth. However, to ensure that economic growth is sustainable, the Government will prioritize fiscal discipline, allocative efficiency, and operational efficiency. Under this directive, the Budget will re-focus resources towards impactful projects and initiatives which will advance the Government's objectives in-line with the budget theme:

‘Re-focusing Resource Allocation on Impactful Projects for a Sustainable, Viable Economy’

Current macroeconomic conditions are broadly accommodative. Although GDP growth is projected to have declined to 1.4 percent in FY 2024, this drop is primarily attributed to challenging environmental conditions such as those associated with the El Nino weather pattern. Over the medium-term, Tonga's economic growth is expected to rebound to 2.5 percent in FY 2025, driven by increased activity in construction, services, and manufacturing sectors.

The accommodative macroeconomic outlook and the fiscal prudence exercised by the Government will allow this Budget to provide a total allocation of \$30m in funding for key initiatives. In keeping with the core objectives of Government, these initiatives have been specifically selected due to their capacity to stimulate private sector activity, support efficient public sector management and service delivery, or deliver significant economic benefits. We expect these initiatives to play a crucial role in Tonga's ongoing development.

We reiterate our acknowledgement of the assistance provided by Tonga's development partners and the wider Tongan diaspora and remain grateful for their ongoing support of our plans and initiatives.

Finally, we call on all key stakeholders across Government, the private sector, and the wider Tongan public to work collaboratively to build our nation, implementing the key initiatives and reforms outlined in the Budget to deliver improved living standards for the betterment of all Tongans.

“We can do all things through Christ who strengthens us”
Philippians 4:13

8 ANNEX I: TSDF OUTCOMES

8.1 TSDF III, 2026 – 2036, VISIONARY DIRECTION

The upcoming TSDFIII, 2026-2036, stands as a pivotal point in our nation's progress. It signifies a commitment to enhanced planning and budgeting strategies designed to meet the evolving needs of our citizens, building upon the valuable insights and experiences gained over the past two decades of TSDFs.

The preparation of the 2025-26 Budget Statement holds significant importance, as it marks the inaugural financial year of TSDFIII; presenting an opportunity to refine the strategic direction for Tonga's future developmental endeavors.

The TSDFIII encourages a people-centered approach, emphasizing the well-being of all Tongans, and fosters collaboration among government bodies, the private sector, civil society organizations, faith-based groups, and local communities. Through unified efforts, we aim to fully harness our capacity for significant change and create a prosperous and sustainable future for all.

This approach is intended to ensure that TSDFIII development efforts are responsive to the requirements, values, and contributions of the people while fostering a sense of inclusivity and ownership. It also acknowledges the crucial role of local knowledge, expertise, belief systems, and practices in driving development. By incorporating the aspirations and perspectives of the Tongan people, we can deliver equitable development that benefits all citizens, irrespective of their societal status.

8.2 Lessons Learned From TSDF II, 2015 – 2025

8.2.1 Mid-term review (MTR) of TSDFII

The MTR of the TSDFII in 2021 brought to light certain issues and lessons. It noted a need to establish stronger connections between the TSDF and detailed sector, corporate, and island/district plans, and the supporting budgets. These detailed plans, which define the priorities and projects necessary for achieving the strategic framework's objectives, are crucial for guiding consistent governmental actions that address the nation's needs.

The MTR also emphasized the necessity of improved monitoring and evaluation of the framework's application and the tracking of developments across all focus areas. Effective monitoring and evaluation are crucial to determine whether planning and implementation are being guided by the TSDF and delivering the desired results.

8.2.2 TSDFII's review through wide consultation

An extensive consultation process was undertaken, from September 2024 to March 2025, actively engaging Tongans nationwide across all island groups. These dialogues have served as a vital platform for citizens to express their aspirations, concerns, and visions for Tonga's future. The consultations have focused on: i) future development, exploring participants' perspectives on the types of development they desire for the next 10 years; ii) thematic areas crucial for Tonga's progress; iii)

examples of good development practices adaptable to Tonga; and iv) challenges Tonga encounters in achieving its development goals.

From the consultation, about half of the discussion looks at future development and highlights good development practices, while the other half focuses on administration and development issues. Findings indicate that the national level outcomes, specified in TSDFII, continue to be crucial for Tonga's development in the coming decade. These outcomes include inclusive and sustainable:

- i) Economic growth
- ii) Community and island development
- iii) Social development that promotes gender equality, enhancement of healthcare services and education development
- iv) Good-governance with law and order
- v) Infrastructure and technology maintenance
- vi) Resilience and climate action including effective strategies for ocean, land and environmental management; and
- vii) Continued advancement of our external interests, security and sovereignty.

It has also been determined that issues such as demographic and migration trends, as well as emerging topics such as illicit drugs, research, innovation, artificial intelligence, and Tongan culture should be integrated in more detail in the new TSDF to enhance Tonga's productivity.

Some progress was made with monitoring, such as the 2019 Tongan Voluntary National Review. This addressed how to link the monitoring of the Sustainable Development Goals (SDGs) with the TSDF monitoring. It also showed progress against some of the outcomes. However, the extensive consultations confirmed the observations from the MTR, that there were challenges in tracking the progress of national development initiatives over the past decade. This limitation arose from difficulties in establishing and maintaining a robust MEL (Monitoring, Evaluation and Learning) system to support the National Planning Division (NPD) of the Prime Minister's Office. This was identified in TSDFII as necessary to monitor high-level progress, as well as the effectiveness of detailed plans and projects to deliver the outputs required to support the outcomes set out in the TSDF.

8.2.3 National Development Summit (NDS) held from 18 – 21 March 2025

The NDS was a government-led initiative creating a forum, supported with live stream links to those outside the meeting and overseas to follow, for the people to discuss Tonga's development. This platform encouraged participatory discussions on national progress and explored collaborative approaches for citizens, the government and others to achieve successful national outcomes.

The discussions throughout the NDS highlighted the importance of an effective and efficient government system. It focused on responsibility and accountability in tackling issues that affect service delivery and national development performance. The need to strengthen the country's development capacity, which is currently being affected by significant outward migration, was noted as urgent.

The summit also covered the TSDF and its crucial role in guiding the country's development policies, plans and projects, budgets, and performance, as well as monitoring national progress. Participants wanted action to address the growing need for improved consultation, collaboration, implementation, monitoring, and reporting of progress related to the TSDF.

The need to better incorporate valuable aspects of Tongan culture into the TSDF, to stimulate development, was highlighted. Addressing the threat of illicit drugs, and the need for additional analysis of demographic trends, were also noted as important to support sustainable advancement. Reforms aimed at transforming government systems should prioritize the utilization of evidence-based data, research and commercially viable innovations to support national income. This strategy endeavors to cultivate a culture of research and innovation, resulting in the creation of innovative solutions that tackle significant development challenges facing Tonga.

8.3 TSDF III Moving Forward

To address the issues that emerged from the review of TSDFII, the following will be considered when shaping the focus areas of the TSDFIII for Tonga's development:

- i) Government to accept responsibility and be held accountable for enhancing public service delivery, based on sound operational systems, culture, and national workforce development to ensure quality services for the citizen of Tonga.
- ii) Government to spearhead a strong governance structure of TSDF, with clear processes that emphasize the crucial function of TSDF as a guiding tool for national initiatives. This encompasses sectoral/island and organizational corporate plans, budgets, development projects, and strategic partnerships, as well as Tonga's regional and international collaboration.
- iii) Government to note the importance of Tongan culture, research, innovation, demographic and migration trends and incorporate into the content of TSDF.
- iv) Government to formally acknowledge and address the existing gap in the TSDF cascading structure by giving special attention to the important role of sector plans in guiding national priorities and the implementation of national impactful works. This strategy could be supported through government efforts and direct implementation in collaboration with development partners. Such an approach would enhance the national value of the TSDF and facilitate investments in a more integrated, multi-sectoral manner.
- v) Government to invest in a more systematic and evidence-based system (such as project database, improved Financial Management Systems) and strengthen strong strategic partnerships within the country, regionally and internationally.
- vi) TSDFIII should be articulated in a manner that is easily understandable and practically implementable for all stakeholders.
- vii) Government (through the Prime Minister's Office – National Planning Division and Tonga Statistics Department) establish an M&E unit. This unit would be responsible for tracking (a) the application of the cascading system and necessary modifications to procedures; and (b) progress against key national KPIs (aligned with international arrangements like the SDGs). In both instances, feedback should be integrated into further gap/diagnosis/solution analysis to help improve progress against TSDF outcomes.

8.4 Structure of the TSDF III

The core TSDF will be a user-friendly version in both English and Tongan, recognizing the TSDF as a national planning framework within which we can:

- engage in a consultative and participatory manner across all stakeholders
- set our Vision (impact) and high-level and organizational outcomes we wish to accomplish working in consultative partnership for the well-being of Tonga and our people
- determine the outputs each set of stakeholders needs to deliver in our collective support to these outcomes
- offer guidance and support to government and non-government stakeholders as part of the collaborative partnership
- ensure each stakeholder has the space to be responsible for determining how they will set priorities, plan and budget, formulate projects/investments and implement them to deliver their outputs – seeking to ensure they are consistent with each other and these outcomes, and following the constitution and laws of the Kingdom
- set out the processes and tools that government is responsible for as one of the key stakeholders in the whole process
- evaluate, monitor, learn and improve our progress:
 - at government level, in establishing and following a clear, consistent and viable set of processes for setting priorities, planning, budgeting, project cycle management, monitoring, reporting and implementing for the delivery of appropriate services to all stakeholders
 - towards these outputs that collaboratively support the TSDF outcomes, based on the use of indicators and targets that are specific, measurable, achievable, realistic, and time-bound (SMART); and supported by the collection of accurate and timely data.

The Core TSDF will be supported by more detailed technical annexes setting out analysis and greater guidance, in particular to assist the Government in more effectively developing its capacity to improve its delivery of services and support to the TSDF and cascading system.

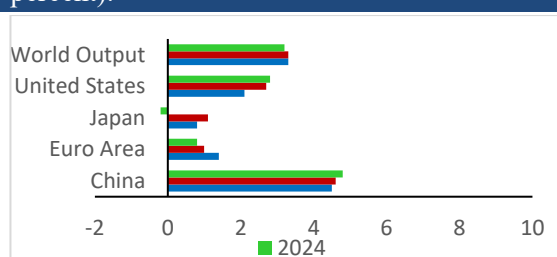
9 ANNEX II: MACROECONOMIC AND FISCAL OUTCOMES AND OUTLOOK

9.1 Status of the economy and outlook

9.1.1 Global Highlights

The global economy has held relatively steady over the previous year, with the post-pandemic inflation trend broadly slowing across the globe. Global growth has been positive albeit muted, with the IMF projecting real global GDP growth of 3.3 percent in both 2025 and 2026. However, there are signs of potential headwinds emerging, particularly in the form of increased disruption to trade via the imposition of tariffs and other barriers, while geopolitical conflict, weak growth, and lingering inflation could all weigh heavily on global economic prospects in the coming years.

A-Figure 1: Real GDP Growth (annual, percent).



Source: WEO (Update), January 2025, IMF.

Globally, real GDP growth is expected to reach 3.3 percent in both 2025 and 2026, a marginal improvement on the 3.2 percent real growth witnessed in 2024. However, the composition of this growth indicates significant divergences across countries. Among advanced economies, the IMF expects the United States to achieve 2.7 percent real growth in 2025, outperforming comparators such as the Euro Area (1.0 percent), and Japan (1.1 percent) based on the continued

strengthening of domestic demand. In emerging market economies, the IMF's overall projected real growth rate is 4.2 percent in 2025, rising to 4.3 percent in 2026. Current uncertainty surrounding trade and policy has led to anemic demand in many countries, but economic activity is expected to recover as this uncertainty recedes though it is still not clear whether the optimistic forecasts will be fully realised.

The IMF expects global headline inflation to decline to 4.2 percent in 2025, before falling further to 3.5 percent in 2026. This convergence back towards target rates is expected to be realized earlier in advanced economies relative to developing economies, but broadly the return to target should allow for a continuing of the normalization of monetary policy. This would represent a return to standard economic conditions following the global disruptions of recent years, which has included both the Covid-19 pandemic and major geopolitical conflict, precipitating the largest inflation surge in four decades.

However, there are notable risks to the return to normal economic conditions, particularly surrounding elevated trade disruption and policy uncertainty. Policy-generated disruptions to the ongoing disinflation process could interrupt the pivot to easing monetary policy, with implications for global fiscal sustainability and financial stability.

9.1.2 Regional Highlights

The IMF has raised its forecast for regional growth in 2024 to 4.6 percent (up from 4.5 percent in April), mainly due to strong economic performance in the first half of the year. The region is expected to contribute about 60 percent of global growth in 2024.

In 2025, more favorable financial conditions are expected to support the economy, leading to a slight upward revision in growth to 4.4 percent (from 4.3 percent in April). Inflation has declined in many parts of the region. However, risks have increased due to rising geopolitical tensions, uncertainty in global demand, and potential financial instability.

An aging population may slow economic activity, but growth could remain strong as businesses shift into high-productivity sectors like tradable services.

Despite these growth prospects, the region faces several risks that could impact its outlook. The IMF warns of increasing geopolitical tensions, uncertain global demand, and financial volatility in the Asia-Pacific region. Additionally, the World Bank highlights that natural disasters—costing an average of 1.5 percent of GDP annually—pose significant threats to economic stability in Pacific Island countries.

To address these challenges and sustain growth, Pacific nations are encouraged to invest in sectors such as sustainable tourism, agriculture, inter-island shipping, and digital connectivity. Strengthening public sector management and enhancing resilience against climate-related threats will also be crucial for the region's economic future.

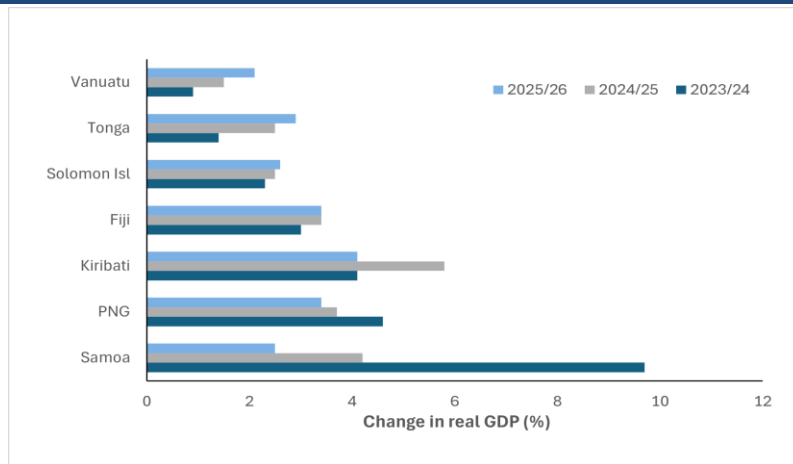
A-Table 1: Regional Real growth rates GDP for FY 2023 - FY2025.

Country	2023/24	2024/25	2025/26
Samoa	9.7	4.2	2.5
PNG	4.6	3.7	3.4
Kiribati	4.1	5.8	4.1
Fiji	3.0	3.4	3.4
Solomon Islands	2.3	2.5	2.6
Tonga	1.4	2.5	2.9
Vanuatu	0.9	1.5	2.1

Source: WEO (Update), January 2025, IMF.

The Pacific region has seen varied economic growth, with Samoa recording the highest post-COVID recovery rate of 9.7 percent in 2023/24, though this is expected to slow to 2.5 percent by 2025/26. Other key insights include:

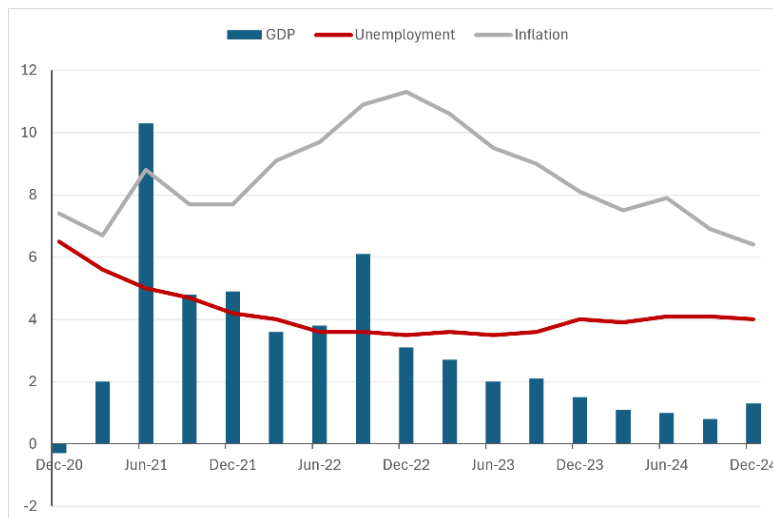
- Tonga's growth remains relatively stable, averaging 2.3 percent over three years, avoiding extreme fluctuations.
- Kiribati projects the highest growth rate (5.8 percent) for 2024/25, likely driven by infrastructure and aid projects.
- PNG, Fiji, and the Solomon Islands show moderate but consistent growth patterns.

A-Figure 2: Regional Real growth rates GDP for FY 2023 - FY2025.

Source: WEO (Update), January 2025, IMF.

Australia-Tonga Economic Relations and Growth Outlook

Australia remains a key trade partner for Tonga, which has experienced moderate economic growth of 1.4 percent in FY 2025, with a projected increase to 2.4 percent in FY 2026. This steady expansion aligns with broader Pacific economic trends, though external risks, such as global trade tensions, may impact future stability.

A-Figure 3: Australian Economic Indicators.

Source: Australian Bureau of Statistics.

Australia's strong labour market, reflected in a declining unemployment rate (4 percent as of December 2024), supports economic resilience.

Growth in non-market sectors (such as volunteer work and charity) further highlights the evolving nature of workforce contributions. Meanwhile, inflation rates have eased, moving toward the Reserve Bank of Australia's 2-3 percent target for 2025, helped by the impact of monetary policies restraining economic

overheating. Australia remains a key trade, remittance and development partner for Tonga.

New Zealand-Tonga Economic Relations and Outlook

New Zealand remains a vital trade and development partner for Tonga, supporting economic stability through trade, remittances, and aid. Bilateral trade consists primarily of agricultural exports from Tonga and manufactured goods from New Zealand. Development assistance from New Zealand, particularly in infrastructure, education, and disaster resilience, plays a key role in Tonga's economic sustainability. Tonga's economy is expected to grow modestly in the coming years, with remittances from seasonal workers in New Zealand under the Recognised Seasonal Employer (RSE) scheme continuing to be a crucial income source. However, shifting labour mobility policies and global economic uncertainties

could influence growth trajectories. Strengthening trade diversification and investment opportunities will be critical for long-term resilience in the Tonga-New Zealand economic relationship.

9.1.3 Domestic Economy Overview

Tonga's economy is small and heavily dependent on external factors such as remittances, foreign aid, and imports. It faces structural challenges due to its geographic isolation, limited natural resources, and vulnerability to climate-related shocks. However, key sectors such as agriculture, fisheries, construction, and services (including tourism and retail) continue to play vital roles in sustaining economic activity.

Real GDP growth is projected to decrease to 1.4 percent in FY 2024 from 2.1 percent in FY 2023. This decline is largely driven by a contraction in the primary sector due to environmental factors such as El Nino, as well as challenges in the tourism sector, particularly those affecting accommodation, restaurants, and related industries.

A-Table 2: GDP Growth by sector¹³.

	FY 2021	FY 2022	FY 2023	FY 2024f	FY 2025f	FY 2026f	FY 2027f	FY 2028f
Primary Sector GDP Growth (%)	-0.9	2.8	16.4	-9.0	3.1	3.3	2.0	1.9
Industrial Sector GDP Growth (%)	19.0	-12.3	-11.1	5.3	3.8	3.8	4.2	4.7
Tertiary Sector GDP Growth (%)	-5.2	-1.9	-3.0	4.3	3.5	3.2	3.7	3.8
Real GDP Growth (%)	0.4	-2.3	2.1	1.4	2.5	2.7	2.9	2.9

Source: Ministry of Finance / Tonga Statistics.

In the current FY 2025 economic growth is expected to increase to 2.5 percent. While this growth has primarily been driven by increased activity in the construction and tertiary sector, there has been a broader recovery across most sectors of the economy, including ongoing project, manufacturing and tertiary sector. However, the primary sector remains a notable underperformer, with levels of activity still recovering following the significant drop in 2023/24 driven by adverse weather conditions.

Remittances play a critical role in Tonga's economy, equivalent to a significant portion of GDP (over 30 percent) and serving as a primary source of income for many households. However, while they provide substantial economic benefits, they do also introduce vulnerabilities which affect long-term economic and social stability and resilience.

Although global inflation has declined more rapidly than expected, ongoing geopolitical conflicts, such as the Russian invasion of Ukraine and the Gaza crisis, continue to pose risks of heightened volatility in global commodity prices. The recent uncertainties associated with the 'Trade War' is also adding to uncertainty, this volatility could have significant implications for the Tongan economy, particularly given its heavy reliance on imports.

Furthermore, the increasing outflow of domestic labor resulting from the expansion of labor mobility programs in Australia and New Zealand present a growing challenge to the Tongan domestic workforce. This, coupled with rising living costs driven by domestic inflation, poses substantial risks to economic growth and household financial stability, necessitating careful policy management.

¹³ Note that sector growth does not sum to headline GDP growth due to sectoral rebates and subsidies.

9.1.4 Outlook for Tonga

Tonga's medium-term economic growth is projected to average 2.8 percent, a rate that reflects ongoing recovery efforts from past economic challenges, as well as the expected implementation of key development projects in the outer years. The recovery process is still underway, with the government focusing on revitalizing key sectors and laying the groundwork for long-term economic sustainability. However, a significant risk to these efforts is Tonga's constrained fiscal space, primarily due to large ongoing debt repayment obligations.

In response to this, the Ministry of Finance, in partnership with the NRBT, will issue \$30m of a new domestic bond, in addition to the roll-over of \$13.6m additional bonds. The ADB will also issue between \$20.0m to \$200.0m of local currency bonds in Tonga depending on demand. These bonds are intended to help improve the efficiency of Tonga financial markets by providing a new source of funding for the government and private sector. By enabling easier access to financing, the issuance of these bonds is expected to stimulate growth, particularly by aiding the revival of the private sector, which plays a critical role in driving economic activity and job creation.

Despite this positive outlook, Tonga also faces challenges that could limit its ability to fully capitalize on the opportunities presented. The country has a limited labor supply, which could constrain the capacity of industries to expand and fully benefit from economic growth. Furthermore, the tourism sector, which is a vital source of income for Tonga, is hindered by insufficient infrastructure, lacking the hotel accommodation, transportation options, and supporting facilities required to attract a larger number of visitors.

Additionally, Tonga is highly vulnerable to climate change, and at increased risk of exposure to natural disasters and environmental impacts. These risks can be partially mitigated through the implementation of appropriate climate resilience measures, which would in turn strengthen supporting infrastructure, protecting coastal areas and the agriculture and fisheries sectors. Climate adaptation efforts will be essential in reducing the economic losses associated with extreme weather events and rising sea levels.

In conclusion, while Tonga's economy is recovering at a gradual pace, it remains highly dependent on external factors such as remittances, foreign aid, and climate resilience initiatives. To ensure long term economic stability and growth, the government must focus on policies that promote economic diversification, strengthen climate adaptation strategies, and encourage private sector development. Such policies will be key in reducing Tonga's reliance on external support and laying the foundation for a more self-sufficient and resilient economy in the future.

9.1.5 Growth projections by key sectors¹⁴

9.1.5.1 Primary Sector

In FY 2025, the primary sector is expected to register real growth of 3.1 percent, marking a notable recovery from the negative real growth of 9.0 percent recorded in FY 2024. This rebound is primarily attributed a shift in the El Niño weather cycle, with improved conditions leading to an increase in the overall volume of agricultural and fisheries exports, and higher domestic agricultural production. A prolonged El Niño period had previously been responsible for the sharp decline in agricultural production experienced in FY 2024, which lasted for five to six months and severely impacted the

¹⁴ Percentage of key sectors contribution to GDP yet to include other imputed fees and charges (include subsidies, interest and bank fees).

productive capacity of the sector. The adverse effects were particularly evident in reduced export volumes of key commodities such as squash, watermelons, coconuts, tuna, and seaweed.

In terms of the various sub-sectors encapsulated within the primary sector, agriculture remains the key contributor. Of the total 19.6 percent of national GDP for which the primary sector is responsible, agriculture accounts for 17.6 percent, with fisheries providing the remaining 2.0 percent.

Looking ahead, the primary sector is projected to record real growth at a moderate annual average rate of 2.4 percent, driven by key initiatives such as the acquisition of longline vessels to boost fish supply and exports, investment in bio-gas production, the opening of a new butchery, and the development of packhouses intended to facilitate agricultural diversification and processing. However, growth remains contingent on favorable weather conditions and the absence of severe natural disasters. The sector remains highly vulnerable to natural disasters, climate change, and external shocks. Additionally, labour mobility challenges continue to pose risks to productivity. In response, the Budget Strategy outlines various measures intended to increase support to the sector, with a focus on facilitating investment in partnerships with the private sector. These partnerships are intended to offer the dual benefits of providing capital equipment while also building capacity with the sector, mitigating the effect of labour shortages and accelerating private sector development.

Agriculture and Forestry: The agriculture and forestry sub-sector are expected to achieve real growth of 3.0 percent in FY 2025, rebounding from the negative real growth of 9.2 percent recorded in the previous year. This increase is driven by higher export volumes of cassava, yam, swamp taro, and sandalwood. In the medium-term, the sub-sector is projected to grow at an average annual rate of 2.4 percent, supported by ongoing sector development programs, including the opening of a new butchery facility, the construction of packhouses in Western and Central Tongatapu and Vava'u, and the diversification of Tonga's energy supply through bio-gas production.

To enter the bio-gas production market, the Ministry of Agriculture, Food, and Forests has launched the "Livestock and Renewable Energy Development Project for Tonga: Biogas Systems", while the Government has supplied (\$1.5m) as part of a total \$21.5m funding package for a bio-gas production facility. This project aims to enhance Tonga's energy security by diversifying energy sources and reducing reliance on imported fossil fuels, thereby lowering national energy costs and strengthening economic resilience. The project will stimulate economic growth through job creation in renewable energy sectors, particularly in the construction, operation, and maintenance of bio-gas systems. It also promotes environmental sustainability by addressing waste management challenges, reducing landfill pollution, and cutting greenhouse gas emissions. Through anaerobic digestion, the project will produce biofertilizers that support soil fertility, food security, and agricultural productivity, aligning with the Circular Economy System (CES) initiative and contributing to the agricultural sector's GDP.

As part of the wider efforts to enhance sustainable agriculture and strengthen climate resilience, the Government is also working with the Global Environment Facility (GEF) on a new project to improve food production while protecting our land and natural resources. The project seeks to combat land degradation, protect the natural resources that support farming, and help communities and the environment become stronger against the impacts of climate change, using solutions that work with nature. It will also support agro-processing activities to add more value to agricultural products and increase incomes for farmers and communities. Implementation is scheduled to commence in November or December 2025, with the project expected to conclude in 2029. This initiative reflects the

Government's commitment to reversing land degradation, protecting natural resources, and promoting sustainable, climate-resilient food systems in Tonga.

Fisheries: The fisheries sub-sector is expected to expand significantly, with an anticipated 4.1 percent growth rate in FY 2025, compared to the negative 7.6 percent growth experienced in FY 2024. The positive growth anticipated in the coming fiscal year is expected to be driven by an increase in tuna and live hard coral exports, although it is notable that since the easing of border restrictions Tonga has not resumed fresh snapper exports, as local fishermen prefer selling domestically over exporting. Tuna fishing remains the primary driver of growth in the fishery sub-sector; and therefore, the government aims to strengthen the domestic tuna fleet in Tonga. In the medium-term, the fisheries sub-sector is forecasted to grow at an average rate of 2.7 percent, supported by ongoing development programs, including the acquisition of 3 long-line vessels and advancements in aquaculture.

The Government, through the Ministry of Fisheries, is implementing immediate arrangements with Chinese and Japanese fishing fleets within the region to increase the number of fishing vessels supplying the domestic market. This initiative is aimed at meeting the immediate demand with adequate volume and ensuring fish is available at more affordable prices. Discussions have been held with both the Chinese and Japanese Ambassadors to expedite the deployment of fishing vessels while the separate project to secure five new fishing vessels through their own systems is being processed. Negotiations with a Chinese fishing company are progressing well, with the necessary licensing requirements already provided. Engagements with Japanese fishing companies are ongoing, coordinated through the Japanese Embassy. These immediate actions demonstrate the Government's proactive response to address the current limited supply of fish in the domestic market and the associated high prices.

Supplementary activity: In addition to the core agricultural and fisheries industries, the primary sector's development strategy includes a secondary focus on three supplementary activities intended to support ongoing growth in the sector. Namely, these are import substitution, diversification, and the expansion of the export base, each of which is understood to offer the potential for further growth over the budget period.

9.1.5.2 Industrial Sector

The industrial sector remains a vital pillar of Tonga's economy, providing significant contributions to national GDP through the construction, mining and quarrying, manufacturing and electricity, and water supply sub-sectors. Comparing FY 2024 to FY 2025, there has been a notable improvement in the growth evidenced across sectors, providing the basis for a positive outlook continuing into FY 2026. This growth signals a restored economy, driven by construction development, enhanced economic resilience, and increased energy demand.

Construction: The construction sub-sector remains the most significant driver of the wider industrial sector, and broader economic growth in Tonga, with an anticipated growth rate of 8.7 percent in FY 2024 followed by 6.1 percent in FY 2025. This growth is attributed to the combination of ongoing private and public projects, like the National Sport Complex, Queen Salote Wharf extension and HTHH reconstruction.

Mining & Quarrying: Expected to follow a similar growth pattern to construction.

Electricity & Water: Slight but steady growth is expected in the electricity and water sub-sector, with projections of 4.9 percent growth in FY 2024 and 4.0 percent in FY 2025. This reflects ongoing investment in energy infrastructure, such as the committed investments in wind power, solar systems, and upgrades to power distribution networks. Additionally, this investment will bring the added benefit of enhancing the reliability of Tonga's energy supply and reducing energy losses.

Manufacturing: Although growth is expected to remain modest at around 0.9 percent for FY 2024 and 0.2 percent in FY 2025, the sector has a positive medium-term outlook. This is underpinned by new Public-Private Partnership (PPP) initiatives such as the Tonga Flour Mill, packhouse facility, and the bio-gas project, which are intended to diversify output and expected to enhance local production, reducing Tonga's dependence on imported flour and animal feed, and promoting food security and agricultural linkages.

Medium-term outlook:

The overall industrial sector is projected to grow at an average rate of 4.2 percent over the medium-term, driven by major infrastructure projects such as the Fanga'uta Bridge, Parliament House, Tonga National Museum, and Vava'u Hospital as well as investment in renewable energy. Additionally, government policies promoting local industries and value-add production could provide a further boost to the economy, particularly in the manufacturing sector.

9.1.5.3 Tertiary Sector

The tertiary sector is expected to account for an estimated 47.9 percent of Tonga's GDP in FY 2025, continuing its growth trajectory albeit at a moderate pace. Following a 3.4 percent expansion in FY 2024, the sector is expected to grow by an annual average rate of 3.5 percent over the medium-term driven by the strong performance of key sub-sectors. Specifically, the wholesale and retail trade, which is the largest sub-sector and is responsible for generating approximately 10 percent of Tonga's total GDP, is forecast to grow by 4.5 percent year-on-year. The accommodation and food services sub-sector, benefiting from sustained tourism recovery, is anticipated to expand by 4.2 percent, while financial and insurance activities are expected to grow by 4.5 percent, reflecting increasing demand for financial services. Further steady growth is expected in the public administration and defense sub-sector, which represents 8.8 percent of Tonga's total GDP. However, downside risks remain, including external supply shocks and vulnerability to natural disasters, which could impact overall sector performance.

The main sub-sector overview of the Service sector is as follows:

Wholesale and Retail Sector: The wholesale and retail sub-sector plays a pivotal role in Tonga's economy, responsible for generating approximately 10 percent of Tonga's total GDP, which makes it the largest sub-sector within the tertiary sector. Its performance is closely tied to broader economic conditions, particularly household consumption, remittance inflows, and import trends.

For FY 2026, the sector is projected to grow by 4.5 percent, up from 4.3 percent in FY 2025, reflecting sustained consumer demand, steady import growth, and the continued expansion of the Electronic Sales Register System (ESRS), which is expected to enhance compliance and boost retail revenue. Over the medium-term (FY 2026–FY 2028), the sector is forecast to maintain an average annual growth rate of 4.5 percent, supported by rising remittances, increased overseas seasonal employment, and public sector wage adjustments (COLA), which will bolster household spending.

However, vulnerabilities remain. Fluctuations in remittance inflows, which account for a significant share of household incomes, pose a major risk to retail activity. Any downturn in overseas employment opportunities or adverse exchange rate movements could dampen consumer spending. Additionally, external supply chain disruptions and import price volatility could impact both vendor profitability and the affordability of key consumer products.

Despite these challenges, the wholesale and retail sector is positioned for steady growth, underpinned by resilient domestic demand, improved tax compliance, and a recovering economic environment. Strategic policies to strengthen market resilience, enhance competition, and ensure price stability will be essential in safeguarding its long-term contribution to the economy.

Accommodation & Food Services Sector and the Tourism Sector: The *accommodation & food services* sub-sector, primarily driven by tourism, remains a critical pillar of Tonga's economic growth. Following an extraordinary resurgence in FY 2023 and strong expansion in FY 2024, the sector is projected to grow by 14.2 percent in FY 2025, driven by increased cruise ship arrivals, the expansion of whale-watching operators, and overall tourist growth. The total number of visitors is expected to reach approximately 120,000 in 2025, with 70,000 arriving by air. Additionally, 40 cruise ship arrivals are anticipated, reflecting growing interest in Tonga as a regional travel destination. The hosting of major regional events forms a key pillar of the wider tourism strategy, with the successful staging of events such as the Pacific Island Leaders Forum in August 2024 demonstrating the potential for such events to boost demand for accommodation and food services.

In FY 2026, sectoral growth is expected to moderate to 4.2 percent as the initial post-pandemic rebound stabilizes. However, tourism activity will continue expanding, with total visitor numbers projected to increase to approximately 130,000, including 80,000 arriving by air. This could be further enhanced as potential visitors to the USA now seek alternative destinations. The number of cruise ship arrivals is also forecasted to rise to around 50, contingent on the wider cruise industry's pandemic-recovery and scheduling. Accommodation capacity is expected to remain stable at 176 establishments nationwide, with potential for boutique accommodations to emerge in response to evolving traveler preferences. Notably, the number of whale-watching operators is expected to decrease as Tonga pivots towards more sustainable tourism practices.

Marketing efforts to attract high-value tourists, continued infrastructure improvements, and a focus on sustainable tourism will ensure long-term resilience and competitiveness in this vital sub-sector.

Health and Social Activities: The health sector is projected to grow by 2.1 percent in FY 2026, up from 1.5 percent in FY 2025, reflecting steady investment in healthcare infrastructure and service delivery. However, following the peak of the COVID-19 pandemic, the sector experienced a significant budget contraction. Growth declined sharply from 16.1 percent in FY 2022 to -30.8 percent in FY 2023, as emergency health expenditures were scaled back and fiscal priorities shifted towards investment in more productive sectors. Despite this reduction, the government remains committed to strengthening healthcare services, recognizing their critical role in human development.

Key initiatives driving growth in the health sector include the implementation of the Tonga National Strategy for Non-Communicable Disease (NCD) Prevention (2021–2025) and continued improvements to essential health infrastructure. Major projects such as the Queen Salote School of Nursing upgrade, the Vava'u hospital renovation, improvements to health centers, and the planned Dialysis Unit under the Ministry of Health (MOH) will enhance service delivery and capacity. Additionally, the government

has placed increased emphasis on disaster preparedness, applying lessons from the pandemic to ensure a more resilient health system.

Efforts to address the skilled nursing workforce shortage remain a priority, as staff retention and capacity-building initiatives are essential for long-term sectoral stability. While health sector growth has normalized after the pandemic-driven surge, strategic investments in infrastructure, workforce development, and disease prevention will support its sustained expansion in the coming years.

Education: The education sector in Tonga is expected to continue with a projected expansion of 4.1 and 3.9 percent in FY 2025 and FY 2026 respectively. The growth in both years is underpinned by the implementation of key strategic initiatives in 2022-2023, which aimed to enhance the overall educational landscape. Namely, a significant milestone was the establishment of the Tonga National University (TNU), which marked a pivotal moment in advancing tertiary education within the country. Further contributions are expected via the continued improvement to school buildings, expansion of Early Childhood Education (ECE) coverage and the sector's continued commitment towards providing quality education, curriculum reviews, teacher registration, and digital reforms that aid educational delivery modes.

The slight moderation of growth projected for FY 2026 is attributed to the government's new focus on enhancing efficiency within the education sector while ensuring sustainable public expenditure. This will entail a realignment of current programs that optimize the allocation of resources. Initiatives such as the breakfast program, the removal of selective exams, and workforce structure have been revised to align with the government's broader vision to promote a more effective education sector.

Transport and Storage: Aligned with advancements in the industrial sector GDP growth, the Transport and Storage sector exhibits a positive outlook. A projected growth of 1.3 percent in FY 2025 and 1.4 percent in FY 2026 is largely driven by elevated activity in land and sea transportation. However, air travel remains constrained by the current challenges faced by the domestic airline industry. The increasing number of vehicles in Tonga, the ongoing support from private sector businesses, along with the removal of the ban on older vehicles will further stimulate economic activity in the transportation sector.

Public Administration and Defense: The Public Administration and Defence sub-sector anticipates growth of 2.2 percent in FY 2025 and 2.5 percent in FY 2026. This positive outlook is supported by several government initiatives, particularly the ongoing implementation of Government public sector reform programs such as the Public Finance Management Road Map (PFMRP) and the Performance Management System (PMS). These programs aim to improve Government efficiency and public service delivery, increasing investment in capacity building through plans to re-instate the Public Civil Service short-term training center, provide scholarship opportunities targeted at specific skills gaps in fields such as engineering, aviation, and butchery, and provide support towards enhanced data collection and innovation. Moreover, the execution of the recent policy changes to extend office hours of essential services to operate through lunch hours, decentralization of financial roles to line ministries and upgrading of the Government financial system, all contribute towards the provision of quality public service to the people of Tonga.

Notably, as of FY 2025, the total public sector wage bill is below the threshold of 53 percent of domestic revenue, allowing more than half of the total budget to cater for Government operational expenses and commitments such as debt repayment and delivery of priority tasks.

Financial and Insurance: The financial and insurance sector is projected to grow by 4.5 percent in FY 2026, up from 3.0 percent in FY 2025, reflecting a more stable credit environment and improved financial market conditions. This growth is expected to be driven by increasing credit demand, financial sector reforms, and efforts to strengthen domestic capital markets.

Medium-term outlook:

Despite the positive outlook, several challenges persist:

- Non-performing loans (NPLs) remain a key concern, rising to 14.8 percent of total debt issued in FY 2025, narrowing bank profitability. Such loans continue to impact financial stability and could restrict future credit expansion.
- Excess liquidity in the banking system is also a challenge, with excess liquidity over TOP300m, weakening monetary policy transmission and signaling limited investment absorption. This excess liquidity does provide a fiscal buffer against unexpected shocks and remains available to support the key economic sectors' investment opportunities, however the NRBT is attempting to tackle the issue by implementing reforms to modernize its monetary framework—redefining its policy rate, issuing NRBT Notes, and strengthening its institutional autonomy.
- Inflation risks remain elevated due to a CPI rebase that increases sensitivity to food and service prices.
- Despite strong capital buffers (RWCR at 33.2percent) and adequate foreign reserves (USD 865.4m or 9.9 months import cover), exchange rate volatility, imported inflation, and geopolitical shocks continue to challenge financial stability, underscoring the need for stronger supervision, targeted risk management, and more effective credit intermediation.

Additionally, global economic risks, including inflation, exchange rate volatility, and financial shocks, pose potential threats to lending conditions and overall financial sector stability. Addressing these vulnerabilities through improved risk management, stronger financial sector reforms, and enhanced investment opportunities will be critical to sustaining long-term growth.

Looking ahead, from FY 2026 to FY 2028, the sector is expected to maintain an average growth rate of 4.5 percent, supported by steady credit expansion, ongoing financial sector reforms, and increased collaboration between financial institutions and policymakers. However, addressing rising NPLs and strengthening capital markets will be crucial to ensuring long-term sectoral resilience.

9.2 Fiscal and Public Debt Outcomes

In the medium-term, the government will continue to be guided by the three (3) key objectives in Public Financial Management (PFM):

- i. Maintain *aggregate fiscal discipline*; by sustaining a balanced relationship between revenues, expenditures, and public debt levels.
- ii. Enhance *allocative efficiency*; by optimizing resource allocation and expenditure to maximize the achievement of government outcomes outlined in the TSDF and supporting plans.
- iii. Improving *operational efficiency*; by utilizing resources effectively and efficiently in implementing strategic priorities outlined in the MDAs Corporate Plan.

The following provides a review of the fiscal framework targets. These fiscal targets remain relevant to continue in FY 2026.

A-Table 3: FY 2026 Fiscal Framework Targets.

m	Short-term	Long-term	Update
Growth	Tonga's economy recorded an average growth rate of 0.4 percent over the five-year period from 2020 to 2024. Economic growth is projected to reach 2.5 percent in 2025 and is anticipated to average 2.8 percent during the forecasted period from 2025 to 2028, driven by the government's ongoing efforts to stimulate and sustain economic development.	Growth long-term target of 3.0 to 4.0 percent growth per annum consistent with macroeconomic stability.	The latest forecast projected a growth of 2.5 percent in 2025, 2.7 percent in 2026, and 2.9 percent in 2027. The growth is led by the construction sector.
Debt	In line with the Government Debt Strategy 2021-2025, aiming to reduce debt distress: (i) no new external borrowing, except for high concessional if need to borrow; (ii) reduce current external debt by loan repayment/commitment; (iii) external borrowing will be as last resort. (iv) pivot to domestic debt to reduce exchange rate risk via the ADB back local currency bond issuance.	The objective is to manage debt risks to Government. Government can only borrow as last resort in terms of financing option.	Continue to execute no external borrowing policy except for high concessional debt. Loan repayment of the EXIM loan. Expansion of domestic bond market through issuance of the new domestic bonds and the ADB backed local currency bonds.
Operating balance	The Government will use fiscal policy to increase productivity and affordability of key public services through continuous implementation of the PFM reforms (organizational review), focus on addressing negative impacts due to inflation, climate change and on vulnerable groups.	The Government will (i) improve fiscal discipline through targeted spending on key priority areas (ii) intend to achieve an annual average of 1-2 percent of GDP budget surplus.	Budget deficit for FY 2026 to finance investment in large infrastructure developments. However, fiscal balance (GFS) is in surplus, indicating long-term sustainability of public finances.
Revenue	Target is to Improve revenue collection through: (i) continuous implementation of revenue reforms; (ii) strengthen compliance and administration, and (iii) review tax exemption.	Target is to improve collection to and above the threshold, 25.0 percent of GDP. This is to support Government objectives towards economic recovery and national resilience. Over the medium-term, the target is to implement an exit strategy from budget support.	Revenue collection is forecast to remain on track, due to the ongoing implementation of revenue reforms, coupled with the strengthening of revenue administration and compliance.

Expenses	<p>Transparency; and ensuring alignment to the macroeconomic and fiscal framework.</p> <p>• <i>Expenditure Control Measures:</i> streamline operational expenses (catering, overtime, overseas travel); asset management control measure; explore option to replace civil servants' personal accident insurance coverage</p>	<p>Target is to meet PFM objectives in terms of allocative and operational efficiency towards achieving national development objectives.</p>	<p>Regular monitoring of expenses, to be re-directed towards financing few key priorities needs i.e infrastructure development (bridge etc)</p>
Inflation	<ul style="list-style-type: none"> Government will continue to liaise with NRBT to provide support and implement relevant measures (subsidies, renewable energy projects) to address impact of inflation, such as high cost of electricity, decline purchasing power. 	<p>Maintain price stability consistent with the current economic situation and to ensure macroeconomic stability.</p>	<p>Latest CPI: 3.3 percent (March 2025), outlook remains uncertain.</p>

Source: Ministry of Finance

9.2.1 Public Debt Position

The current debt portfolio continues to face notable challenges, with refinancing risk and exchange rate risk being the primary concerns. As of 30th June 2025, approximately 83.8 percent of total debt is denominated in foreign currencies, leaving the portfolio vulnerable to currency fluctuations. However, the exposure is somewhat mitigated by the commencement of major repayments to the EXIM Bank in 2024 which has altered the currency composition of debt. Consequently, the Special Drawing Rights (SDR) constitute the largest share of the total outstanding debt, representing 46.8 percent.

Refinancing risk remains a constant issue, driven primarily by the two large loans provided by the EXIM Bank, scheduled between 2024 and 2030. For the year ended 30th June 2025, total debt service is estimated at \$69.8m, comprising of external \$50.9m (73.0 percent of total debt service) and domestic \$18.9 m (27.0 percent of total debt service). This is an increase of \$4.9m relative to June 2024, attributed to increased bond maturity and exchange rate fluctuations.

Total public debt as of 30th June 2025 is estimated at \$428.9m (34.2 percent of GDP), a decrease of \$14.5m representing a 3.3 percent reduction relative to the total public debt as of 30th June 2024.

Public Debt Position

Tonga's risk of external debt distress and overall debt distress remains high, as highlighted in the IMF's 2024 Article IV Consultation. Recent external shocks have highlighted Tonga's economic vulnerabilities, with negative impacts to private sector constraining long-term fiscal health. In response, the Government will issue new domestic bonds during FY 2026 to support the private sector by expanding access to capital. In line with the revising Medium-Term Debt Strategy (MTDS) for 2025-2028, the Government continuously aims not to contract any new loan unless they are under a highly concessional facility, and will instead focus on developing the domestic debt market, including the issuance of Treasury bills if needed. Despite 83.8 percent of Tonga's debt being external, exposing the

country to foreign exchange and refinancing risks, the government continues efforts to domesticate external debt to mitigate these vulnerabilities. Notably, all debt remains on fixed interest rates, eliminating interest rate risk, while short-term foreign exchange debt is manageable at 2.3 percent of reserves.

Transparency efforts have been enhanced, with the completion of the Sustainable Development Framework Policy (SDFP) Policy Performance Actions (PPA), including the publication of quarterly bulletins, annual reports, and an annual borrowing plan. Further, ADB approved the SDFP for Tonga to revise the government guarantee policy and develop a Government On-lending policy. Which is now completed and approved by Cabinet in April 2025.

Regarding the Nuku'alofa Central Business District (CBD) Reconstruction loan, the government successfully negotiated and approved a 25 percent write-off with CBD borrowers. Two borrowers have repaid their outstanding loans, and ongoing collaboration continues with the remaining borrowers to facilitate their repayments.

The government has also commenced the second year of principal repayments for the Nuku'alofa CBD Reconstruction project loan from China EXIM Bank, maintaining the annual payment of \$42.0 m, including the service cost of the Debt Service Suspension Initiative (DSSI). This payment represents a significant portion of Tonga's debt service obligations, with full repayment of China EXIM Bank loans projected by FY 2030.

Given that domestic debt has a shorter average maturity of 2.6 years compared to 7.4 years for external debt, refinancing risk remains a key consideration, reinforcing the importance of the government's ongoing strategy to deepen the domestic debt market.

In summary, Tonga's debt position requires vigilant management, with a focus on concessional financing, domestic debt market development, and enhanced transparency to mitigate risks and ensure fiscal sustainability.

Total Public Debt

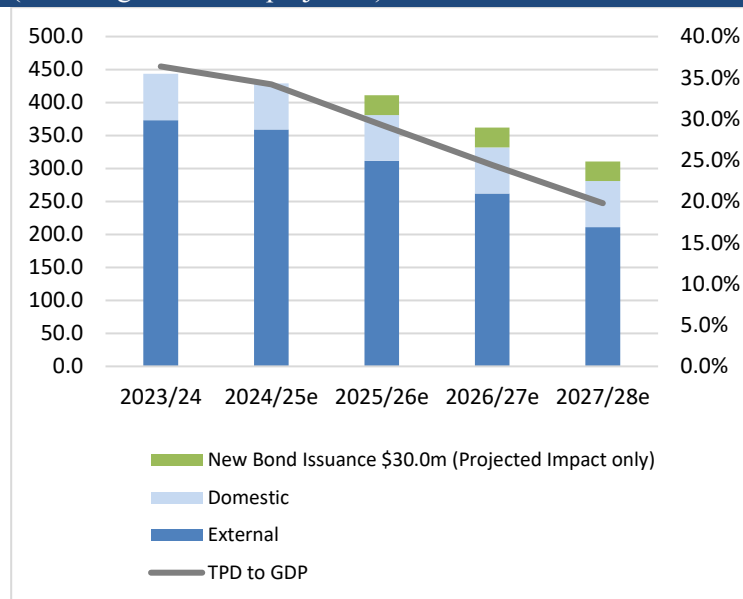
The current debt portfolio continues to face a notable exposure to both exchange rate and refinancing risks. As of 30th June 2025, an estimated 83.8 percent of the total debt is denominated in foreign currencies with 46.8 percent exposed to Special Drawing Rights (SDR). The predominance of external debt holdings continues to expose the debt portfolio to currency fluctuation risks. Despite the recent shifts in currency composition offering a slight cushion, the overall exposure remains a key vulnerability. Refinancing risk remains

elevated, primarily driven by the schedule of principal repayments from 2024 to 2030 on two substantial loans from the EXIM Bank. Although the domestic debt represents only 16.2 percent of total outstanding debt, it still represents a significant refinancing risk. About 6.9 percent of total debt will mature within the next year, with domestic debt contributing 15.5 percent of this, making repayment a pressing concern. Additionally, the Average Term to Maturity (ATM) is short at 2.6 years for domestic debt, increasing the frequency of refinancing needs compared to the external debt's ATM of 7.4 years.

A-Figure 4 shows the total public debt level projected over the next medium-term incorporating the impact of the planned \$30.0m new bond issuances for FY2026 on the domestic debt stock. However, the actual impact will be confirmed once the bond tenor is finalized.

Total public debt as of 30th June 2025 is estimated at \$428.9m (34.2 percent of GDP), a decrease by 3.3 percent (\$14.5m) from 30th June 2024.

A-Figure 4: Total Public Debt (\$m) FY 2024 – FY 2028 (including actual and projected).



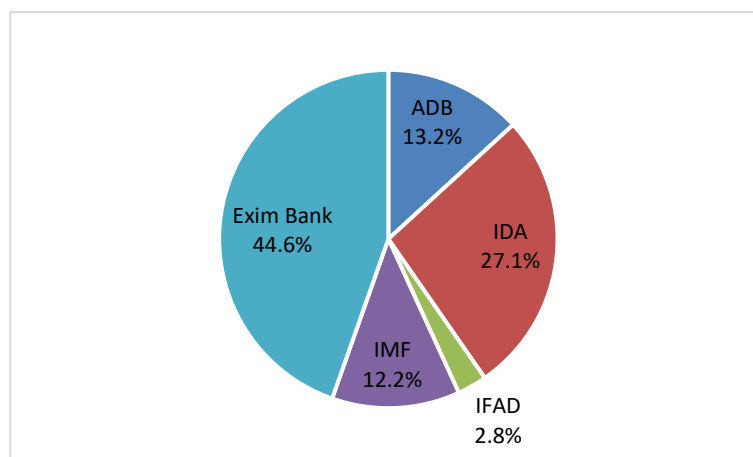
Source: MOF [Financial Framework Division (FFD)-Debt Unit].

External Debt

Total external debt as of 30th June 2025 is estimated at \$359.3m (28.7 percent of GDP). Multilateral creditors represent the largest share of external debt with \$199.0 m, with contributions from the International Development Association (IDA) at \$97.5m, the Asian Development Bank (ADB) at \$47.4m, International Monetary Fund at \$44.0m and the International Fund for Agriculture Development at \$10.1m. Bilateral debt, solely

attributed to the China EXIM Bank with \$160.3m. The Government is exploring alternative repayment strategies to mitigate exchange rate and financing risk. The reduction in debt level between June 2024 and June 2025 is primarily due to the repayment made to China EXIM Bank.

A-Figure 5: Debt by Creditor as of 30th June 2025.

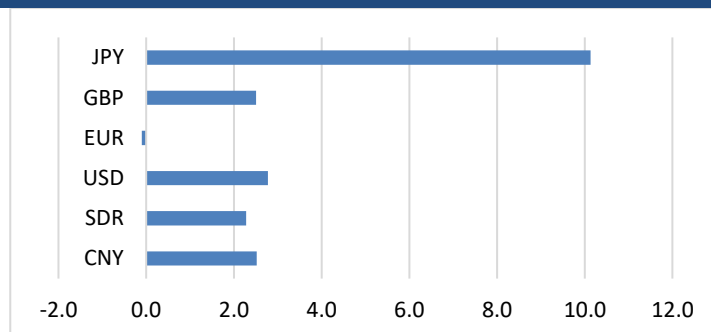


Source: MOF [Financial Framework Division (FFD)-Debt Unit].

Currency Denomination of External Debt

For FY2025, the major holding within the portfolio has shifted, with the SDR now holding the largest share. The SDR is expected to depreciate against Tongan Pa'anga by 2.3 percent compared to 30th June 2024. Similarly, CNY, with the second largest share in the portfolio, has also depreciated by 2.5 percent and the USD has depreciated by 2.8 percent while the Euro (EUR) slightly appreciated by 0.1 percent. A-Figure 6 illustrates the fluctuations of the borrowing currencies including basket currencies of SDR. The depreciation of Tongan Pa'anga against the portfolio's major currencies, particularly the SDR and CNY, has significantly increased the local currency burden for repayments. This challenge is further compounded by the peak repayment obligations to China since FY 2024, posing concerns for portfolio stability.

A-Figure 6: FC/TOP Exchange rate Fluctuations as of 30th June 2025.



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

Domestic Debt

Government bonds continue to be the primary component of the Tonga's domestic debt portfolio, amounting to \$69.7m. This is a decrease of 1.0 percent from the outstanding stock in the previous year due to the undersubscribed bond series in July 2024. These bonds with maturities ranging from 3 to 6 years, are dominated by 5-year tenors, which constitute 65 percent of the total domestic debt portfolio. The

Government continues to explore the development of the domestic market and the use of other domestic financial instruments, such as zero-coupon bonds, Green bonds, Blue bonds and Treasury bills, while planning to issue new bonds to provide funding for key priorities, with the aim of potentially accommodating the domestication of external debt in the future.

A-Table 4 shows the outstanding amounts by tenor as of 30 June 2025. The issuance of bond is regulated by the Minister of Finance and managed while the National Reserve Bank of Tonga (NRBT) act as the registrar of domestic bonds issuance.

Total domestic debt as of 30th June 2025 is estimated at \$69.7m (5.6 percent of GDP). The distribution of this debt has been influenced by two under-subscribed bond series in July 2024, which resulted in shifts among key bondholders. A-Figure 7 shows that majority of the bonds, approximately 51.1 percent, is held by Financial Institutions (\$35.6m), despite a year-to-date decrease of 18 percent. Other notable holders include the National Retirement

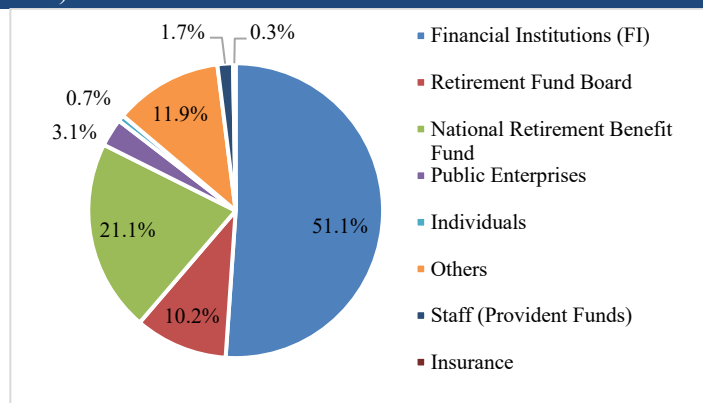
Benefit Fund (\$14.7m), which experienced a significant increase of 74 percent, and the Retirement Fund Board (\$7.1m), with 20 percent growth. Smaller portions are held by Public Enterprises (\$2.1m), Individuals (\$0.5m), Staff (Provident Funds) (\$1.2m), Insurance Companies (\$0.2m), and Others (\$8.3m). The stability in bondholder composition highlights a potential opportunity to further explore financial instruments and encourage broader participation.

A-Table 4: Outstanding amounts by tenors as of 30th June 2025.

Tenor	Domestic Debt Outstanding amount	%
3 years	9,026,000	13.0
4 years	508,000	0.7
5 years	45,412,000	65.2
6 years	14,704,000	21.1
Total	69,650,000	100.0

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

A-Figure 7: Government Bond Holders as of 30th June 2025 (percent).

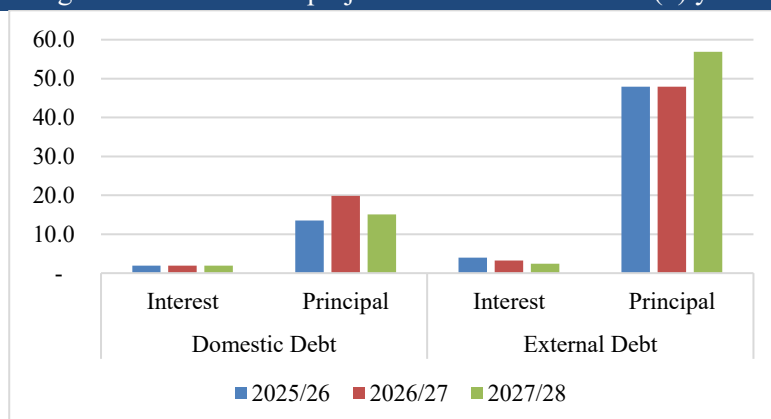


Source: MOF [Financial Framework Division (FFD)-Debt Unit].

Debt Service

Total debt service (expenditure), for the year ended 30th June 2025, is estimated at \$69.8m, comprising of an external \$50.9m (73.0 percent of total debt service) and domestic \$18.9 (27.0 percent of total debt service). This is an increase of \$4.9m relative to June 2024, attributed to an increase in number of bond series anticipated to mature by June 2025, as well as exchange rate fluctuations.

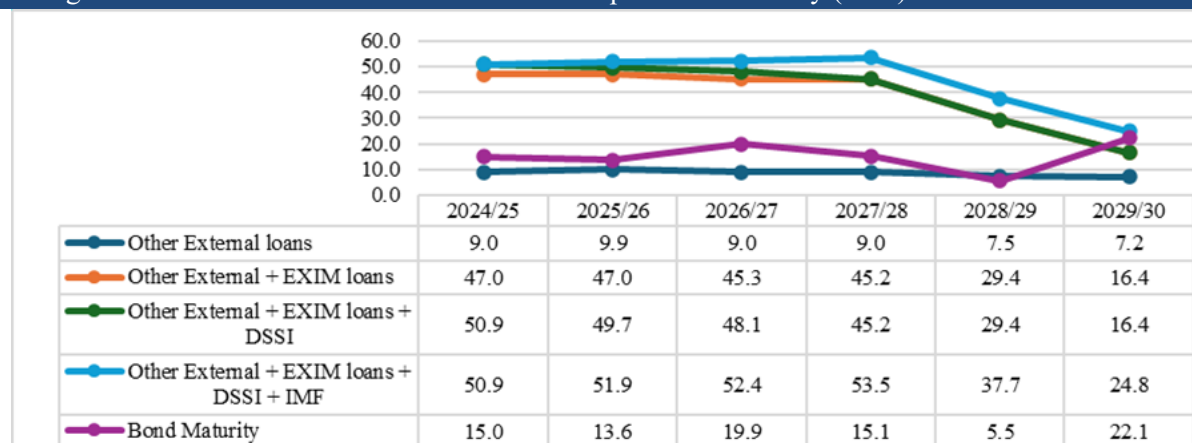
A-Figure 8: Debt Service projections for the next three (3) years.



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

A-Figure 8 reflects that the medium-term debt service trend indicates a gradual increase in total obligations, from \$69.8m in FY 2026 to \$72.9m in FY 2028, before likely continuing its upward trajectory in subsequent years. The share of domestic debt service is set to fluctuate, with principal repayments peaking in FY 2028 due to bond maturities and is expected to significantly increase in the outer years, driven by the planned \$30.0m new bond issuance in FY2026 to support economic development initiatives, and strengthen investments in the education and training sector administered under the Government Development Loan (GDL) facility. The external debt service remains a substantial portion of the total obligation, largely dominated by steady principal repayments for the CBD loan from EXIM and other key external loans.

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.

A-Figure 9 above reflects a more detailed projection showing that the debt service significantly influenced by the maturity schedule of the China loans, particularly related to the Nuku'alofa CBD project. These repayments will continue to affect external debt trends into FY 2025 until FY 2030. 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 (\$69.7m). Further domestic borrowing continues in the medium-term to assist with refinancing of external debt through domestic bonds and to reduce exchange rate risk. While the domestic debt levels appear stable, the government

might defer bond repayments until revenue improves, potentially within a 5–6-year window, once the expected economic recovery takes hold.

On-lent Loans

The Government continues to utilize on-lent loans to support investments through public and private entities, fostering economic growth while bearing the associated risks of borrower defaults. To address these risks, the Ministry (MOF) successfully published in April 2025, its first-ever on-lent loan policy as per the policy actions under the Sustainable Development Policy Financing Agreement (SDPFA) of the World Bank. This marks a significant step toward formalizing procedures for managing on-lent loans.

The total on-lent loans, as of 30th June 2025, owed to the Government are estimated at \$29.2m equivalent to 2.3 percent of GDP and 8.0 percent of total external loans. To address repayment challenges, the Cabinet has approved a 25 percent loan write-off for Nuku'alofa CBD borrowers in February 2024, exemplifying the Government's commitment to balancing repayment obligations while supporting borrowers over the remaining four years of the loan to EXIM Bank. The negotiation triggered a significant reduction in the on-lent stock of \$11.6m due to repayments from the CBD on-lent scheme borrowers.

A-Table 5: On-lent loans as of 30th June 2025.

Borrowers	2023/24	2024/25e	YTD change \$
Nuku'alofa CBD Project	36.4	25.2	-11.2
Tungi Colonnade Ltd	16.6	16.6	0
O G Sanft Ltd	7.7	1.6	-6.1
M F Taumoepeau Ltd.	5.4	5.4	0
City Assets Ltd	5.1	0	-5.1
Royco Amalgamated Ltd	1.7	1.6	-0.1
Public Enterprises	4.5	4	-0.4
Tonga Broadcasting Commission	2	1.9	-0.1
Tonga Development Bank	0.3	0	-0.3
Tongatapu Market Ltd	1.2	1.3	0
TAMA	0.9	0.9	-0.1
Total ONLENT	40.8	29.2	-11.6

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

Government Development Loan

The Government established the Government Development Loan (GDL) facility in 2017 to support various sectors in the economy, adjusting its allocation over the years to encourage private-sector investment.

In May 2024 and October 2024, \$2.5m and \$2.0m, respectively, were transferred from this facility to increase the capital holding of the Government share as per a directive as of December 2023 to increase funding for Tonga Development Bank (via equity funding of \$7.8m for GDL). As a result, the total revised allocation for the facility is \$13,750,243.76 as of December 2024.

As shown in A-Table 6, the GDL facility has an available lending balance of \$882,678.38 as of 31st December 2024. Meanwhile, TDB is actively pursuing asset recovery for 217 accounts in arrears, with

a total outstanding value of \$3.5 m for loans that are three (3) months or more overdue. The breakdown of available funds for lending across different sectors is as follows:

A-Table 6: Government Development Loans as of 31st of December 2024.

Sector	Loan Funds	Available for lending
Primary Sector	Agriculture Marketing & Production Fund	- 791,179.35
	Agriculture & Forestry Development Fund	1,374,340.82
	Fisheries Development Fund	146,618.55
	Fisheries Development & Export Fund	- 395,103.76
	Fisheries Development Fund COVID-19 & TC Harold	53,902.79
	Livestock Development Fund	- 6,346.78
	Micro Loans for Women	- 330.20
Industrial Sector	Manufacturing Loan Fund	164,755.37
Tertiary Sector	Retail and Wholesale Fund	27,806.93
	Tourism Loan Fund COVID-19 & TC Harold	113,235.47
	Tourism Loan Fund	80,859.84
Infrastructure & Utilities	Construction and Utilities Fund	- 6,161.57
Social Sector	Education Loan Fund	- 102,491.31
	Overseas Medical Fund	83,181.48
Special Facility & Relief Funds	SPECIAL FACILITY FUND for HTHH & COVID-19	139,590.10
Total Available for lending		882,678.38

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

Government Guaranteed Loan

A-Table 7: Government Guarantee Loans as at end of June 2025.

Guarantee Beneficiary	2022/23	2023/24	2024/25e	YTD change (\$m)
City Engineering & Construction	0.5	0.7	0.0	-0.7
Inter Pacific Ltd	3.3	3.4	0.0	-3.4
Island Dredging	2.1	2.1	0.0	-2.1
Lulutai Airlines Ltd	2.1	1.4	1.5	0.04
Cost Low Company Ltd	5.6	5.6	0.0	-5.6
Royco Ports Services	2.6	2.3	2.4	0.1
Total by borrower	16.2	15.6	3.9	-11.7

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

Total Government Guaranteed loan as of June 2025 is estimated at \$3.9m, 0.3 percent of GDP. These are for Royco Ports Ltd (61.5 percent of total government-guaranteed loans) and Lulutai Airlines Ltd (38.5 percent of total government-guaranteed loans).

The liability level has significantly declined from the previous financial year due to the expiration of the loan guarantee period. Currently, three road contractors are under legal action.

Managing contingent liability risks continues to require strong governance, supported by a robust legal framework and institutional arrangements. The revision of the Guarantee Policy published in April 2025, aligned with the SDPFA policy actions, is part of this effort. A comprehensive risk management strategy is critical and should include risk disclosure and accounting, financial hedges and reinsurance measures to mitigate risks, and contingency funds, fee revenues, and budget provisions to address potential liabilities.

Summary of Debt Ratios

A-Table 8: Debt Sustainability Indicators.

Indicators	(IMF) Tonga Target %	FY2025	FY2026	FY2027	FY2028
NPV of external debt as					
% of GDP	40	33	27	22	16
% of GDP & remittances	36	22	17	14	11
% of exports	150	985	794	626	454
% of exports & remittances	120	58	44	39	31
% of government revenues	250	42	31	27	21
Debt Service as:					
% of exports	20	192	175	182	164
% of exports & remittances	16	11	10	11	11
% of revenues	20	8	7	8	8

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

Tonga's debt sustainability indicators remain within IMF thresholds except from those related to exports. A-Table 8 shows that the Net Present Value (NPV) of external debt as a percentage of GDP projected to decline from 33 percent in FY 2025 to 16 percent by FY 2028, staying well below the 40 percent target, largely due

to de-escalation of debt level from repayments of principal to the EXIM loan. However, debt service as a percentage of exports remains a concern, standing at 192 percent in FY 2025 and gradually decreasing to 164 percent by FY 2028, still exceeding the 20 percent threshold. The inclusion of remittances significantly improves debt ratios, underscoring their critical role in debt sustainability. While fiscal revenues appear sufficient to meet debt obligations, Tonga remains highly vulnerable to external shocks, particularly those affecting trade and foreign exchange stability.

A-Table 9: Cost and Risk Indicators of Debt Outstanding as at end of FY 2025.

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of TOP)		359.3	69.7	428.9
Nominal debt as percent of GDP		28.7	5.6	34.2
PV as percent of GDP ¹		23.0	5.6	28.6
Cost of debt ²	Interest payment as percent of GDP ³	0.3	0.2	0.4
	Weighted Av. IR (percent)	0.9	0.3	1.2
Refinancing risk ²	ATM (years)	7.4	2.6	6.7
	Debt maturing in 1yr (percent of total)	5.4	15.5	6.9
	Debt maturing in 1yr (percent of GDP)	1.8	0.9	2.7
Interest rate risk ²	ATR (years)	7.4	2.6	6.7
	Debt refixing in 1yr (percent of total)	5.4	15.5	6.9
	Fixed rate debt incl T-bills (percent of total)	100.0	100.0	100.0
	T-bills (percent of total)	0.0	0.0	0.0
FX risk	FX debt (percent of total debt)			83.8
	ST FX debt (percent of reserves)			2.3

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

A-Table 9 illustrates Tonga's public debt, standing at \$428.9m (34.2 percent of GDP), with 83.8 percent as external debt and 16.2 percent as domestic debt. The present value of debt is lower at 28.6 percent of GDP, reflecting the concessional nature of borrowing as lower interest rates and longer maturities reduce debt burden. Debt servicing costs remain low, with interest payments at 0.4 percent of GDP (0.3 percent as external and 0.2 percent as

domestic), and the weighted average interest rate at 1.2 percent (0.9 percent as external and 0.3 percent as domestic). Refinancing risk is higher for domestic debt, as 15.5 percent of it matures within a year, compared to just 5.4 percent of external debt, and its shorter average maturity of 2.6 years further heightens the risk relative to the 7.4 years for external debt. The foreign exchange risk is significant, with 83.8 percent of debt in foreign currency, though short-term FX debt is manageable at 2.3 percent of reserves. Despite these risks, the fixed rate of the debt minimizes the risk of interest rate fluctuations. Overall, Tonga's debt position remains stable but close attention is required on managing the refinancing and foreign exchange risks.

9.2.2 Monetary Policy Stance

Given the current and expected inflation trends and economic conditions, the National Reserve Bank of Tonga maintains its accommodative monetary policy stance in support of its shared goal with the Government in promoting macroeconomic growth.

At the same time, the Bank will focus on modernizing its monetary policy framework and strengthening the monetary policy mechanism. This is to strengthen the effectiveness of monetary policy tools influencing market interest rates, and thereby inflation, aligning with the recommendations of the International Monetary Fund (IMF). The NRBT has also drafted amendments to the NRBT Act to further enhance its institutional and financial autonomy as part of broader organizational reforms. These

changes are intended to improve the Bank's governance, operational effectiveness, and capacity to effectively fulfill its core mandate.

To achieve its core objectives of maintaining internal and external stability, the NRBT is working to implement the following policy actions as stated in its February 2025 Monetary Policy Statement:

- 1) Modernize and strengthen Monetary Policy transmission by:
 - i. Redefining the NRBT policy rate from a floor rate to a conventional mid-rate, providing a clearer signal for the overnight rate; and
 - ii. Mopping-up excess liquidity through the issuance of NRBT Notes.
- 2) Support economic growth by maintaining the current floor interest rate (interest on ESA) at 0 percent.
- 3) Maintain the Statutory Reserve Deposit (SRD) ratio at 15 percent.
- 4) Review the Exchange Rate framework to optimize its pass-through effect on inflation.
- 5) Review the NRBT's communication framework to improve policy transparency and awareness.
- 6) Strengthen coordination between Monetary Policy and sustainable Fiscal Policy to address supply-side drivers of inflation and liquidity management. Further collaboration is also required to address the high cost of living, access to finance, and the structural reforms necessary to promote private sector development. Collaborative efforts will also be required to strengthen the economy's resilience to external shocks, such as the current trade war spurred by Trump's tariff policies.

9.2.3 Monetary and Financial Outcomes

9.2.3.1 Overview

- ✓ The 12-month average annual inflation was 4.2 percent in March 2025. The outcome of the recent CPI rebase by the Statistics Department (launched in March 2025) has put inflation at a relatively higher level compared to the previous rebase. For 2024, average annual inflation in the 2021 rebase was 5.1 percent, compared to 3.2 percent in the 2018 rebase. The new rebase has allocated more weight to food items, making inflation more sensitive to food supply shocks and natural disasters.
- ✓ Foreign reserves are still comfortably above the recommended level of imports coverage, bolstered by inflows of foreign aid and remittances. However, it is slowly declining as import payments and debt financing increase. Exchange rate stability has also been maintained, and the IMF deemed the current exchange rate regime appropriate in its 2024 Article IV report.
- ✓ Monetary conditions remain sound, supported by excess liquidity and adequate reserves. Credit growth has rebounded strongly, suggesting improved business confidence and an ongoing economic recovery. However, the high non-performing loans are still a concern, warranting stronger oversight and prudent loan management. The interest rate spread is narrowing on the back of lower lending rates. Persistently high excess liquidity in the banking system weakens monetary policy transmission.
- ✓ The NRBT projects economic recovery to continue in FY 2026, sustained by ongoing development projects and primary sector recovery from adverse weather conditions. However, long-term growth and Tonga's potential growth are estimated to be low at around 1-2 percent. Though inflation is expected to remain below the 5 percent reference rate in line with the easing of inflationary pressure on global commodity prices, Tonga's high vulnerability to external shocks and climate change are downside risks to the forecast.
- ✓ The increase in the weights of non-core items in the new CPI basket will reduce the effectiveness of monetary policy addressing headline inflation pressures as these items are more sensitive to external shocks. Inflation risks are expected to rise, particularly due to global market disruptions from the Trump administration's reciprocal tariffs imposed, which may impact exchange rates,

foreign reserves, and imported inflation. While foreign reserves are expected to remain adequate in the near term and financial stability is supported by enhanced supervision, inflationary pressures warrant close monitoring.

9.2.3.2 Inflation

The newly rebased CPI that measures Tonga's inflation has reported relatively higher inflation rates compared to the previous CPI measure. The Statistics Department launched its new CPI report – January 2025 at the end of March 2025, using its new 2021 index rebase which reflects the findings of the Household Income and Expenditure Survey (HIES) 2021. Contrast to the previous methodology, where headline inflation had already moderated below the 5 percent reference rate since July 2024, the new rebase shows a spike in inflation to 6.0 percent in December 2024 (compared to 1.2 percent in the former rebase). As a result, the annual average inflation for 2024 was higher at 5.1 percent in the new rebase, compared to 3.2 percent in the previous methodology.

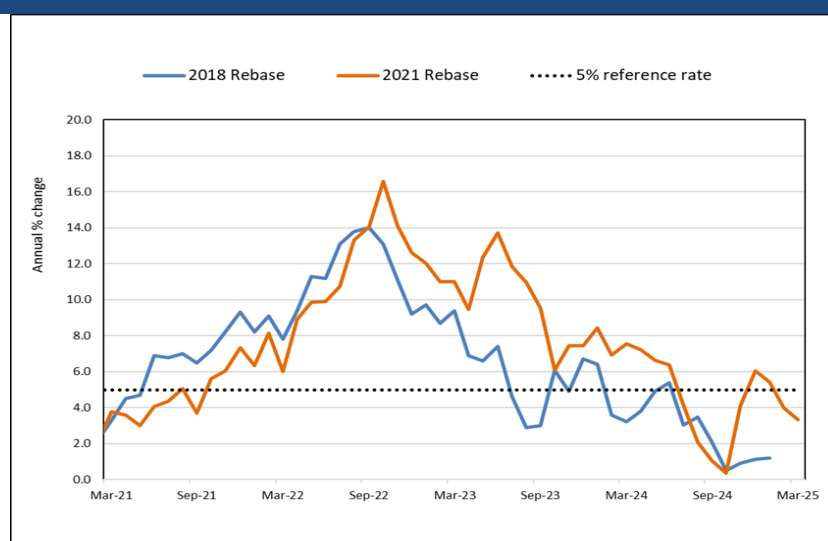
Some of the key differences between the old rebase and the new one are the allocated weights of the major groups and the items included in the CPI survey. The weight of the Restaurants and Accommodation services group increased markedly from 3.1 percent to 15.0 percent, coupled with the increase in the Food and alcoholic beverages group from 39.8 percent to 42.6 percent. This means that Tonga's inflation is now more sensitive to changes in food prices, domestic supply shocks, and natural disasters. Meanwhile, the weight of the Housing, Water, Electricity, Gas and other fuels group declined from 10.8 percent to 6.6 percent, followed by a fall in the Transport group from 16.4 percent to 13.2 percent. Additionally, the weight of imported items fell from 55.1 percent to 51.4 percent, while the weight of local items increased from 44.9 percent to 48.6 percent.

In March 2025, headline inflation was 3.3 percent, lower than the 7.6 percent in March 2024, and the NRBT's 5.0 percent reference rate. Import prices rose over the year and contributed 1.8 percentage points to the headline. This was from higher prices of imported goods such as Personal care items, Food, Clothing and footwear, Tools and equipment for house and garden, and the Purchase of vehicles. Similarly, domestic prices also rose over the year and contributed 1.5 percentage points to the headline. This was driven by increases in the prices of Kava, Tobacco, and Food and beverage serving services. Meanwhile, the prices of electricity, gas and other fuels declined and partially offset the rise in domestic prices.

Despite the easing inflationary pressure, the elevated high inflation in previous years has been passed on by producers to consumers, resulting in higher cost-of-living expenses. Since January 2022, Tonga's headline inflation has averaged at more than 5 percent up until December 2024 (using the 2021 rebase). Tonga's cost of living has increased and has outpaced those of our neighboring countries. High cost of living deteriorates

households' real income and disproportionately hurts lower-income households and vulnerable groups. With the bulk of income absorbed in basic necessities, little room is left for long-term investment in health and education, further constraining productivity and potential growth. Furthermore, core inflation (excluding food and energy) is estimated at 8.3 percent in March 2025, which is higher than the headline inflation and has been increasing. Non-core inflation, however, is declining, reflective of the lower oil prices.

A-Figure 10: Headline Inflation – 2018 vs 2021 Rebase



Source: Tonga Statistics Department.

Based on the limited prices information currently available, the NRBT projects that inflation will remain below the 5 percent reference rate in the near term. The Reserve Bank is currently working closely with the Statistics department for a more in-depth analysis of the new CPI rebase to be incorporated into its forecasting models. This is crucial for the adjustment of monetary policy tools to effectively combat inflation and maintain price stability. However, risks from trade conflicts and geopolitical tensions may reignite inflationary pressures. Nevertheless, in the immediate term the Trump tariffs have spooked the market and have driven down global energy prices due to recession fears. As of mid-April 2025, global oil prices had plummeted by 14 percent compared to the end of month March figures. This will help reduce inflation domestically in the near term by almost 2 percent. Nonetheless, impact of tariffs on the exchange rates have offset some of the movements due to expected slowdowns in GDP in Asia, Australia and New Zealand. Global prices are also expected to increase in the near term as producers would seek to pass on the increase in cost from tariffs.

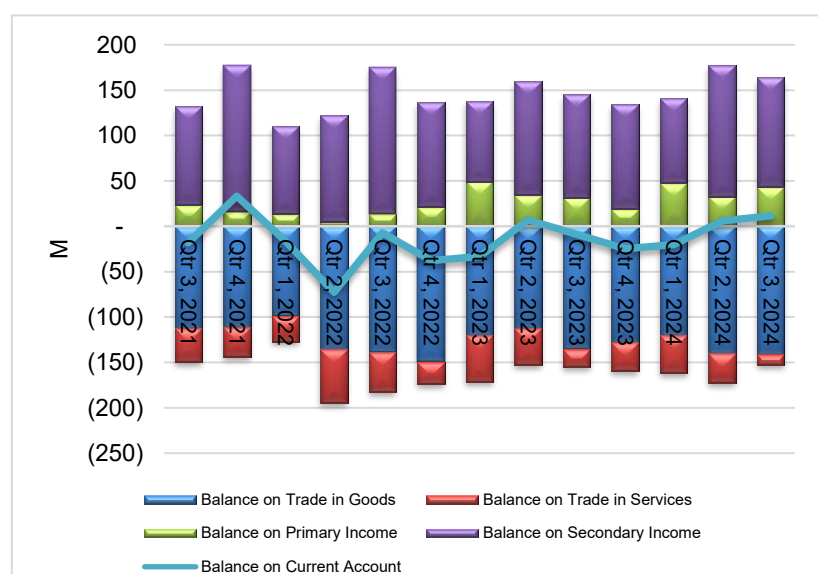
These developments support the need for Tonga to increase local production, especially import-substitution products to reduce its dependency on imports and control inflation. Additionally, investing in infrastructure to reduce transport and shipping costs, improve climate resilience, and enhancing energy efficiency, will assist in reducing business costs and cost of living.

9.2.3.3 Balance of Payments (BOP)

Tonga's current account deficit narrowed significantly by 61.7 percent to \$27.9m over the year to September 2024, according to the latest BOP report released by the Statistics Department. This improvement was mostly attributed to the higher positive balances in the primary and secondary income

accounts of 4.4 percent and 7.1 percent, respectively. This reflects higher inflows of foreign aid and remittances over the year. Additionally, the trade deficit also declined over the year (1.1 percent), contributing to the reduced current account deficit. This stems from the strong rise in service credits (23.5 percent), particularly travel receipts, which outweighed the rising imports (1.0 percent). Tonga's Balance of Payment position continues to be defined by the country's reliance on imports relative to a narrow export base, remittance, and foreign aid. Consequently, these are also the key sources of vulnerability to external shocks that can significantly impact inflation and economic growth.

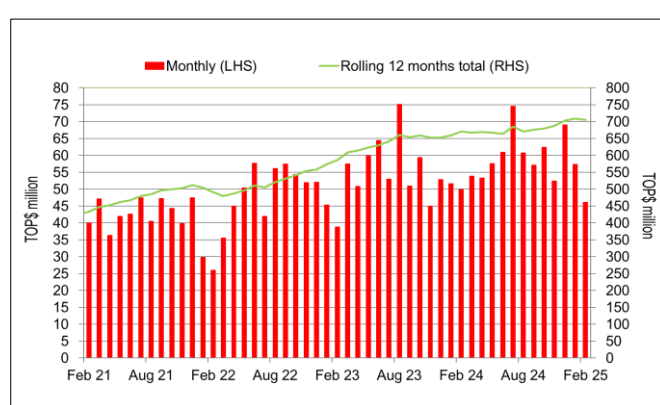
A-Figure 11: BOP – Current Account (Quarterly).



Source: Tonga Statistics Department.

The NRBT also monitors the following high-frequency performance indicators sourced from its Overseas Exchange Transactions (OET) data, to assist with the assessment of the external sector.

A-Figure 12: Import Payments.

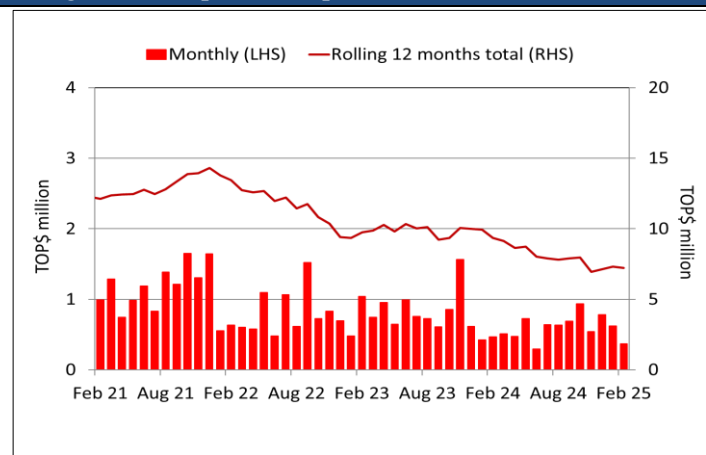


Source: NRBT OET.

Import payments increased over the year to February 2025 by 5.2 percent (\$35.0m) to \$705.5m, accounting for 55.9 percent of total OET payments. Oil import payments increased the most, followed by wholesale and import payments and other imports (mostly Government imports). The majority of the payments were paid in US dollars, which accounted for 54.3 percent of the total import payments. Import payments have been increasing steadily in recent years, driven by Tonga's post-disaster recovery and ongoing economic development needs.

This upward trend is expected to continue, further pressured by the expected increase in global prices excluding oil due to the current trade tensions.

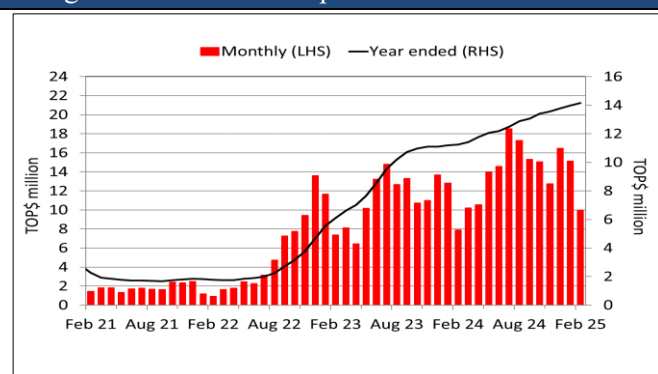
A-Figure 13: Export Receipts.



Source: NRBT OET.

However, export receipts declined over the year to February 2025 by 22.8 percent (\$2.2 m) to \$7.2m, driven by lower proceeds from both agricultural and fisheries exports. Agricultural export receipts declined over the year by 30.5 percent (\$2.1m), while marine exports fell by 15.2 percent (\$0.4m). This is in line with the declining volumes of agricultural and marine exports over the year. Adverse weather conditions from El Nino severely impacted agricultural produce, in addition to constraints in export requirements for key export products such as squash, the main driver of the lower agricultural exports. Lack of investment incentives in the fisheries sector keeps marine exports at a minimum. Annual export proceeds have been on a declining trend since 2021, and amount to only 1.02 percent of total import payments, and 0.05 percent of total OET receipts. As a result, Tonga's exposure to global commodity prices, global supply-chain shocks, and imported inflation is relatively high. It should also be noted that the majority of the agricultural exports are through informal channels, such as family and relatives overseas, instead of exporting to formal markets. This may contribute to the underreporting of the value of export proceeds and the uncertainties of receipts.

A-Figure 14: Travel Receipts.



Source: NRBT OET.

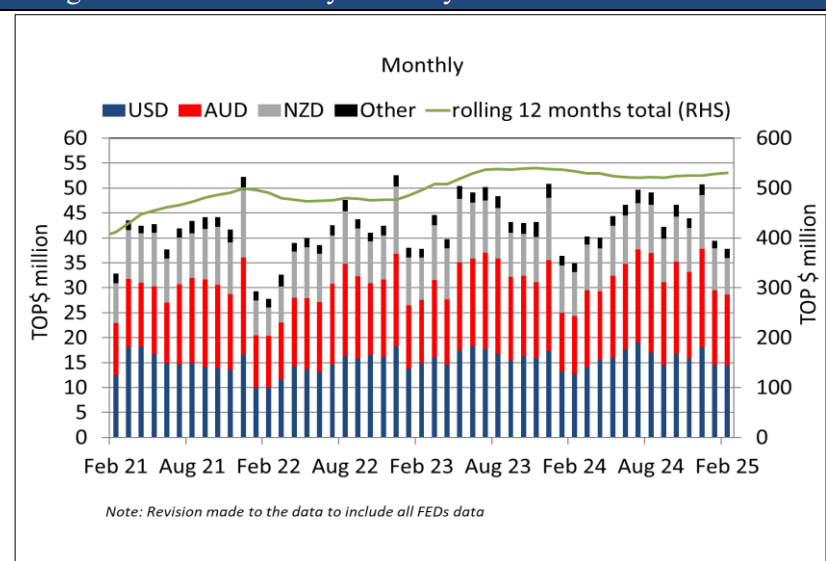
Travel receipts have rebounded strongly over the year to February 2025 by 25.9 percent (\$35.0m) to \$169.9m, fueled by the recovery in tourism activities. Annual events such as the Pacific Islands Forum (PIFs) Leaders' meeting and the holiday festivities, and the resumption of cruise ship arrivals supported the annual rise. Travel receipts account for 58.4 percent of total service receipts, and the remaining 41.6 percent consists of other service receipts, which also rose over the year by 32.5 percent (\$29.7m). These are mostly

from telecommunication, construction, and professional & management services.

Remittance receipts slowed down over the year to February 2025 by 0.6 percent (\$3.0m) to \$530.7m. Private transfers from the Tongan diaspora slightly declined by 1.1 percent (\$5.5m) over the year, as remittance inflows slowly return to normal levels following large hikes in response to major disasters in the past years. This may also be supported by the persistent increase in the cost of living in source remitting countries. On the other hand, compensation of employees and private capital transfers rose by 4.2 percent (\$2.2m) and 44.2 percent (\$1.3m), respectively. This corresponds to Tonga's increasing participation in the Australia and New Zealand labor mobility schemes. Remittances as a share of GDP are estimated to have declined from 44.1 percent in the previous year to 42.8 percent as of February 2025. Foreign Exchange Dealers continue to be the preferred channel for remittances, through which 88.9 percent of total remittances are transferred. The majority of remittance receipts are denominated

in Australian Dollars, representing 38.1 percent of the total remittance receipts. US dollars followed with 36.5 percent and New Zealand Dollars with a 20.6 percent share of total remittance receipts.

A-Figure 15: Remittance by Currency.



Source: NRBT OET.

Other current transfer receipts, such as official transfers and non-profit transfers, rose over the year to February 2025 by 50.1 percent (\$70.2m) and 50.2 percent (\$28.3m), respectively. These are mostly budget support for the Government and transfers to local churches.

Capital receipts fell by 10.1 percent (\$1.8m) in the year to February 2025 to \$15.7m, owing mostly to lower official receipts for development projects.

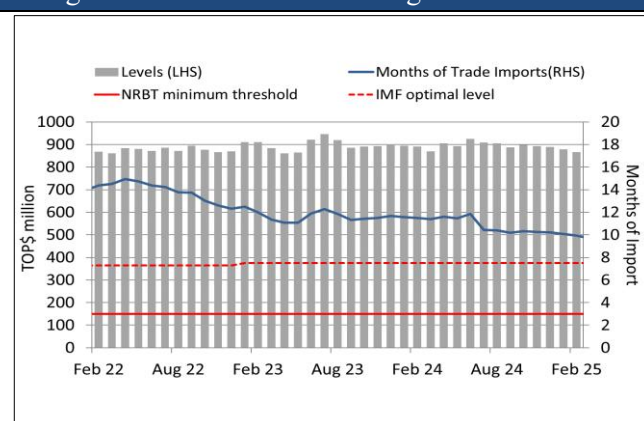
Receipts of capital transfers, mostly for donor-funded projects, declined by 42.6 percent (\$4.4m) from the previous year. This was partially offset by a 36.6 percent (\$2.6m) increase in private capital receipts, mostly for construction projects for non-profit organizations and households. On the other hand, there was very little outflow of capital transfers during the year, falling by 90.4 percent (\$5.7m) to \$0.6m from February 2024.

Financial transactions involving financial assets and liabilities with the rest of the world have also picked up over the year. Inflows of financial transfers rose by 42.9 percent (\$78.7m) over the year to February 2025, attributed mostly to interbank transfers and foreign investments. On the other hand, outflows of financial transfers more than doubled in the same period by \$60.3m (113.9 percent), attributed to a rise in offshore investments and external debt financing.

9.2.3.4 Foreign Reserves

Tonga's official foreign reserves are slowly declining but still remained well above minimum adequacy thresholds providing continued support for external stability. Foreign reserves declined in the year to February 2025 by 2.9 percent (\$26.0 m) to \$865.4m. The annual decline in foreign reserves corresponds to the higher outflows for import payments, offshore investments, and repayments of external debt. The current level of foreign reserves is equivalent to 9.9 months of imports coverage, lower than the 11.5 months of

A-Figure 16: Gross Official Foreign Reserves.



Source: NRBT; Tonga Statistics Department.

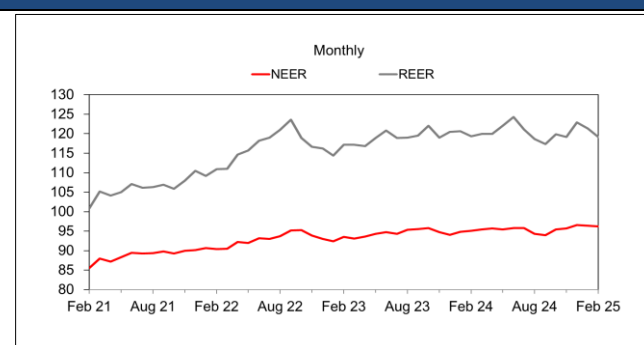
imports coverage in February 2024. Nonetheless, the current level of foreign reserves is still above the IMF prescribed level of 7.5 months of imports cover, and the NRBT's minimum threshold of 3 months of imports cover.

The announcement of AUD\$85m and other donor funds to be received in the next few years would also help maintain the level of foreign reserves. However, the anticipated increase in import payments relative to the anticipated gradual slowdown in foreign aid and remittances are expected to gradually reduce the level of foreign reserves. Foreign reserves are mostly held in USD, AUD, and NZD. The outlook for foreign reserves is expected to remain comfortable in the near to medium-term and ongoing monitoring is essential to ensure the foreign reserves remain sufficient amid external pressures.

9.2.3.5 Exchange Rates

The Tongan pa'anga strengthened against most of its major trading currencies over the year to February 2025, partially offsetting the stronger US dollar. The nominal effective exchange rate index (NEER) appreciated over the year by 1.2 percent, benefitting importers and reducing imported inflation. Taking into account Tonga's inflation, the real effective exchange rate (REER) index slightly weakened over the year by 0.4 percent. This indicates a gain in Tonga's global trade competitiveness.

A-Figure 17: Nominal and Real Effective Exchange Rates.



Source: NRBT.

9.2.3.6 Financial Sector Performance

Banking System's Position

The stability in the banking system was maintained and supported by the banks' strong capital position and excess liquidity. Banks' balance sheets continued to grow with total assets increasing over the year to February 2025 by 5 percent (\$62.0m) to \$1.3 billion, supported by a 12.6 percent credit growth (without Government Development Loans - GDL). Total liabilities also grew over this period by 6.8 percent (\$67.4 m), largely driven by the high deposit balances.

Banking System's Performance

In the year ending February 2025, banks remained profitable but at a reduced rate, attaining a Return on Assets (ROA) of 2.0 percent and a Return on Equity (ROE) of 8.3 percent compared with 3.4 percent and 13.5 percent, respectively in the previous year. During this period, non-interest expenses rose by \$7.0m, an increase of 17.7 percent. These expenses primarily included \$2.3m for administrative and occupancy costs, \$2.2m for other expenses, and \$1.9m for salaries, wages, and benefits. Additionally, provisions increased by \$7.0m. Conversely, operating income grew by only \$2.0m, or 2.6 percent, primarily due to a rise in interest income of \$1.9m. With total non-performing loans increasing over the year, total loan loss provisions increased to a total of \$27.1m for the year. The capital position of the banking system remained strong, with a risk-weighted capital ratio (RWCR) remaining well above the statutory minimum requirement of 15 percent. As of February 2025, the RWCR was at 33.2 percent,

down from 36.1 percent in February 2024. This decline was primarily due to an increase in risk-weighted assets driven by credit growth, while lower retained earnings due to profit repatriation over the year contributing to the lower capital base.

The anticipated positive credit growth outlook is constrained by the quality of the current loan portfolios. While banks have established strategies to support lending, these efforts must be reinforced by the NRBT's continued targeted supervision and guidance to address underlying economic vulnerabilities. Preserving asset quality is critical to support macroeconomic growth and stability. Any further deterioration in asset quality could undermine banks' profitability and erode capital buffers, limiting their ability to extend credit. Therefore, enhanced supervision and real-time monitoring of emerging risks are essential to maintain confidence in the banking sector.

Lending Balance

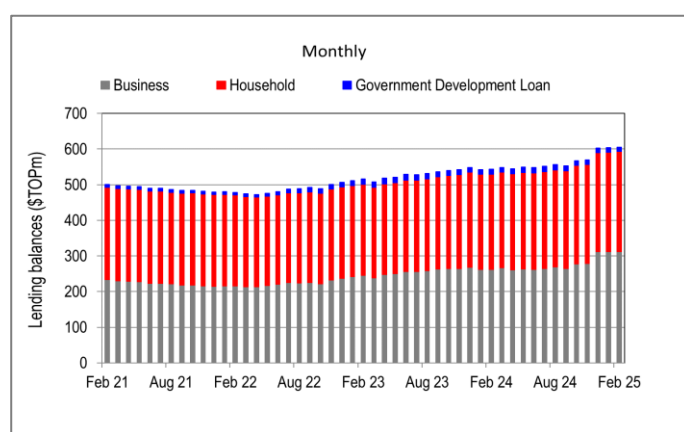
A strong credit of growth (with GDL) of 12.0 percent (\$63.6m) has been recorded for the year ending February 2025. The banks' total lending (including GDL) reached a new high level of \$593.5m, corresponding to the ongoing economic recovery and improvement in investment appetite. Lending to businesses (mainly for businesses within the professional & other services, distribution and tourism sectors) increased by \$20.5 m (9.6 percent). Household loans also grew by \$13.7 m (5.1 percent), mostly for housing, vehicles, and personal loans.

The NRBT anticipates credit growth to remain positive in the near term, underpinned by the economic recovery efforts and improved business confidence as inflationary pressure eases. Nevertheless, total non-performing loans have also increased from 9.9 percent to 13.9 percent of total loans, exceeding the internal trigger of 10 percent. While supervision litigation is ongoing, the Reserve Bank continues to work closely with the commercial banks to ensure that non-performing loans are managed prudently, and that adequate provisions are maintained in accordance with regulatory standards.

Deposit Balance

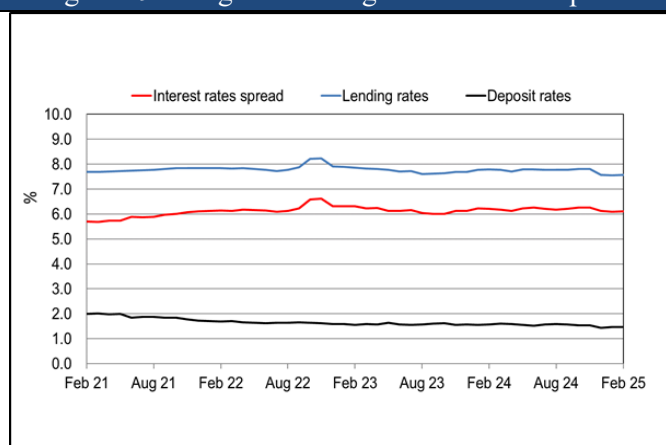
The total banks' deposits increased over the year to February 2025 by \$60.8m (6.7 percent) to \$972.5m. This was supported by the \$83.5m (20.2 percent) rise in demand deposits, and the \$36.5m (13.1 percent) increase in time deposits. The growth in deposits was mostly sourced from the Government, Microfinance businesses, Retirement Funds, Private sector, and non-profit organizations (churches). Saving deposits, however, fell by \$22.5m (12.3 percent).

A-Figure 18: Banks' Lending.



Source: NRBT.

A-Figure 19: Weighted Average Interest Rate Spread.



Source: NRBT.

Interest Rates

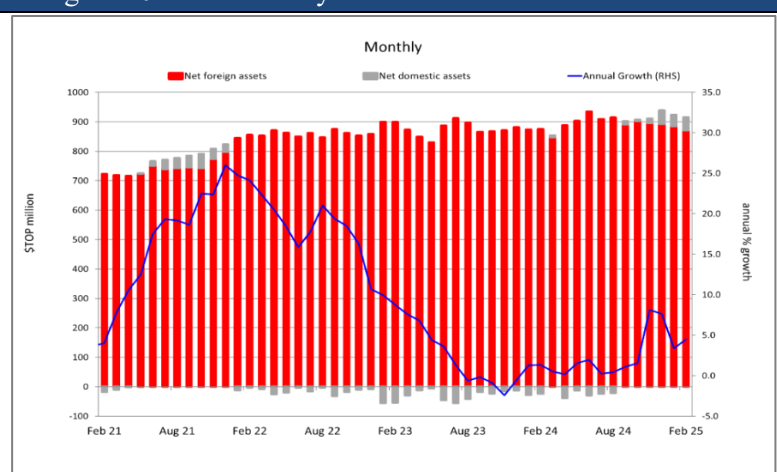
The weighted average interest rate spread, a key indicator of movements of interest rates under Tonga's weak credit market conditions, narrowed by 11.5 basis points to 6.1 percent in the year to February 2025. This narrowing was primarily driven by a 21.6 basis points decline in the average lending rate, reflecting reduced rates offered to non-profit organizations, statutory non-financial corporations, business corporations, and households. At the same time, the weighted average deposit rate also declined by 10 basis points, mainly due to lower time and

demand deposit rates, alongside increased deposit volumes.

Broad Money

Broad Money expanded over the year to February 2025, by \$65.3m (7.7 percent) to \$914.8m. The net domestic assets increased significantly, attributing to higher credit to private sectors and net credit to non-financial corporations. On the other hand, the net foreign assets decreased, in line with the lower foreign reserves. Reserve Money also climbed annually by \$10.6m (1.8 percent) to \$614.2m, reflecting higher Statutory Reserve Deposits (SRD) and Currency in circulation. On the other hand, the Exchange Settlement Accounts (ESA) declined over the year. It is estimated that the excess liquidity in the banking system is more than \$300m. The high excess liquidity suggests a lack of investment opportunities and lags in utilization of project funds already injected into the banking system.

A-Figure 20: Broad Money Formation.



Source: NRBT.

10 ANNEX III: GFS SUPPLEMENTARY INFORMATION

10.1 GFS Detailed Overview

A-Table 10: GFS detailed.

	Provisional FY2024 (\$m)	Original Estimate FY2025(\$ m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027(\$m)	Projection FY2028 (\$m)
Revenue	735.1	896.5	840.0	929.7	911.5	900.4
Taxes	300.0	327.7	335.2	347.1	379.3	390.9
Taxes on income, profits, and capital gains	66.3	68.8	76.6	78.7	92.7	97.5
Taxes on property	0.5	0.5	0.4	0.4	0.5	0.5
Taxes on goods and services	202.7	215.7	216.9	228.3	240.6	245.2
Taxes on international trade and transactions	30.6	42.7	41.3	39.7	45.5	47.7
Other taxes	0.0	0.0	-	-	-	-
Grants	386.9	514.2	447.7	509.2	449.5	427.5
Current	70.7	93.1	99.5	120.2	82.2	81.3
Capital	316.2	421.1	348.2	389.0	367.3	346.2
Other revenue	48.2	54.5	57.1	73.4	82.7	82.0
Expense	492.0	611.9	526.2	621.9	545.3	555.7
Compensation of employees	164.7	189.6	180.4	192.9	193.2	193.7
Wages and salaries	152.9	175.3	167.4	178.0	178.3	178.8
Social contributions	11.7	14.3	13.0	14.9	14.9	14.9
Use of goods and services	235.6	293.7	228.7	314.3	248.8	251.6
Interest	7.4	6.9	6.9	5.9	5.1	4.3
To nonresidents	5.6	4.8	4.9	4.0	3.2	2.4
To residents other than general government	1.7	2.1	2.1	1.9	1.9	1.9
Subsidies	1.1	1.3	1.7	1.3	1.3	1.3
Subsidies to public corporations	0.0	0.0	-	-	-	-
Subsidies to private enterprises	1.1	1.3	1.7	1.3	1.3	1.3
Grants	26.4	44.2	43.6	38.4	28.3	21.7
Social benefits	29.4	28.4	30.7	33.1	30.1	30.1
Other expense	27.4	47.7	34.1	35.9	38.4	52.9
Gross Operating Balance	243.1	284.6	313.8	307.8	366.2	344.7
Net Acquisition Of Nonfinancial Assets	189.3	234.8	236.0	252.4	285.9	265.2
Fixed assets	188.1	230.3	232.4	248.3	261.6	245.9
Buildings and structures	124.7	162.9	121.4	145.3	197.9	203.8
Machinery and equipment	57.2	34.0	83.6	102.5	59.8	34.6
Other fixed assets	6.3	33.4	27.4	0.5	3.8	7.5
Nonproduced assets	1.2	4.5	3.6	4.1	24.3	19.3
Land	1.2	4.5	3.6	4.1	24.3	19.3
Net Lending/Borrowing Requirement	53.9	49.8	78.0	55.5	80.4	79.6
Net Acquisition Of Financial Assets And Liabilities (Financing)	-53.9	-49.8	-78.0	-55.5	-80.4	-79.6
Financial Assets	-10.4	-2.8	(29.4)	-37.1	-30.7	-28.0
Domestic	-10.4	-2.8	(29.4)	-37.1	-30.7	-28.0
Currency and deposits	-5.7	5.3	-25.5	-0.9	-13.7	-11.0
Loans	-2.2	-0.7	3.3	-36.0	-16.9	-16.9
Shares and other equity	-2.5	-7.4	-7.3	-0.1	-0.1	-0.1
Financial Liabilities	-43.4	-46.9	-48.5	-18.4	-49.7	-51.6
Domestic	3.0	-0.8	-1.8	30.0	0.0	0.0
Loans	14.0	15.0	15.0	43.6	19.9	15.1
Repayments	11.0	15.8	16.8	13.6	19.9	15.1
Foreign	-46.4	-46.1	-46.7	-48.4	-49.7	-51.6
Loans	-	-	0.0	-	0.0	0.0
Repayments	46.4	46.1	46.7	48.4	49.7	51.6

Source: Ministry of Finance.

10.2 GFS Detailed Revenue

In FY 2026, the **total revenue** is estimated to increase by 10.7 percent (\$89.8m) when compared to the FY 2025 revised estimate. The increase is attributed to an increase in **total tax revenue** of 3.5 percent resulting from the recovery in the wider economy, as well as the increase in **total grants** (13.7 percent or \$61.5m).

The rise in **total grants** is related to the initiation of *capital* grant funding for major projects such as the Fanga'uta bridge, Vava'u hospital, New Parliament, and the ongoing grant funding for projects such as the Queen Salote Wharf upgrade. Additionally, FY 2026 will see an increase in the level of *current* grant funding (i.e. untied budget support) with a rise of 20.8 percent (\$20.7m) driven by the implementation of key policy triggers under the Joint Policy Reform Matrix.

The **non-tax revenue** is also projected to increase, rising by 28.6 percent (\$16.3m) primarily resulting from the expected increase in Government revenue collected from Public Enterprises (PEs) as well as transfers from NRBT.

A-Table 11: GFS Revenue (\$m)

	Provisional FY2024 (\$m)	Original Estimate FY2025 (\$m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)
Revenue						
Taxes	300.0	327.7	335.2	347.1	379.3	390.9
Grants	386.9	514.2	447.7	509.2	449.5	427.5
Non-tax or Other revenue	48.2	54.5	57.1	73.4	82.7	82.0
Total	735.1	896.5	840.0	929.7	911.5	900.4

Source: Ministry of Finance.

Taxes on Income and Profits: The revised estimate for taxes on income and profits is \$76.6m for FY 2025, an increase of 11.3 percent (\$7.8m) from the original estimate of \$68.8m. This increase results from the change in tax policy following the end of Covid-related tax exemptions introduced to support businesses, which has led to an increase in the withholding tax collected from non-residents. In FY 2026 revenue from taxes on income and profits is expected to marginally increase to \$78.7m, as part of which PAYE income tax is expected to remain steady at \$27.8m.

A-Table 12: GFS Taxes on Income and Profits (\$m)

	Provisional FY2024 (\$m)	Original Estimate FY2025 (\$m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)
Taxes						
Taxes on income, profits, and capital gains	66.3	68.8	76.6	78.7	92.7	97.5
Taxes on property	0.5	0.5	0.4	0.4	0.5	0.5
Taxes on goods and services	202.7	215.7	216.9	228.3	240.6	245.2
Taxes on international trade and transactions	30.6	42.7	41.3	39.7	45.5	47.7
Other taxes	0.0	0.0	-	-	-	-
Total	300.0	327.7	335.2	347.1	379.3	390.9

Source: Ministry of Finance.

Tax on goods and services: The revised estimate for tax on goods and services is \$216.9m in FY 2025, a rise of \$1.2 m (0.6 percent) from the original estimate of \$215.7 m. This is due to a reduction in the collection of excise tax and lower taxes related to motor licenses and examination relative to the initial estimate, with the drop resulting from the impact of inflation and price changes. However, going forward the outlook remains positive, with taxes on goods and services expected to increase to \$228.3m in FY 2026.

A-Table 13: GFS Taxes on Goods and Services (\$m)

	Provisional FY2024 (\$m)	Original Estimate FY2025 (\$m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)
Taxes on goods and services						
General taxes on goods and services	132.6	139.3	142.9	145.0	152.5	154.2
Excise Tax	63.0	68.2	66.6	71.1	73.9	77.1
Taxes on use of goods and on permission to use goods or perform activities	7.1	8.2	7.4	12.2	14.2	13.9
Total	202.7	215.7	216.9	228.3	240.6	245.2

Source: Ministry of Finance.

Tax on International Trade and Transaction: The revised estimated tax on international trade and transactions is \$41.3m in FY 2025, a decrease of \$1.5m relative to the original estimate, with the drop resulting from lower than expected collections from the Forex levy. For FY 2026, collection from business and government import duties and forex levy are expected to fall marginally to \$39.7m, and will continue to cater for sport related activities such as Mate Ma’a Tonga, ‘Ikale Tahi, and local sport activities.

A-Table 14: GFS International Trade and Transactions (\$m)

	Provisional FY2024 (\$m)	Original Estimate FY2025 (\$m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)
Taxes on international trade and transactions						
Business Import Duties	24.4	29.5	28.6	32.2	35.6	35.8
Government Import Duties	0.6	0.4	0.4	1.0	2.4	3.9
Recoverable Charges	0.0	0.0	-	-	-	-
Forex Levy	5.7	12.8	12.3	6.5	7.5	8.0
Passenger Service Charge	0.0	0.0	-	-	-	-
Total	30.6	42.7	41.3	39.7	45.5	47.7

Source: Ministry of Finance.

Grants: Grant resources are received as a result of bilateral agreements with foreign Governments and international organizations. In the table below, grants are classified as either *current* or *capital* grants. Capital grants are those related to projects where the Government allocates grant funding to directly finance development initiatives, while current grants reflect money received as cash transfers for budget support.

A-Table 15: GFS Grants (\$m)

	Provisional FY2024 (\$m)	Original Estimate FY2025 (\$m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027(\$m)	Projection FY2028 (\$m)
Grants						
Current	70.7	93.1	99.5	120.2	82.2	81.3
Capital	316.2	421.1	348.2	389.0	367.3	346.2
Total	386.9	514.2	447.7	509.2	449.5	427.5

Source: Ministry of Finance.

Total Grants received are estimated to reach \$509.2m for FY 2026, increasing by \$61.5m from the FY 2025 revised estimate due to the receipt of grant funding resulting from initiation of development project and climate change/resilient projects. Receipts relating to *current* grant funding also increased in FY 2026 compared to the revised FY 2025 estimate due to the provision of additional budget support from New Zealand and Australia. This additional budget support results from meeting the conditions of key policy triggers under the Joint Policy Reform Matrix.

Other Revenue (Non-tax): The revised estimate for other revenue for FY 2025 is projected at \$57.1m, an increase of \$2.6m from the original estimate for FY 2025. This increase mainly results from the higher levels of revenue transfer received from the National Reserve Bank of Tonga compared to the initial estimate for FY 2025. Over the medium-term the outlook for other revenue is expected to be positive, with collections growing in line with the broader economic recovery.

A-Table 16: GFS Other Revenue (\$m)

	Provisional FY2024 (\$m)	Original Estimate FY2025 (\$m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)
Other revenue						
Property income [GFS]	13.5	12.7	10.6	12.5	15.8	16.1
Sales of goods and services	16.6	21.2	18.3	27.4	33.0	32.5
Fines, penalties, and forfeits	1.0	1.1	0.9	0.8	0.9	0.9
Voluntary transfers other than grants	0.7	0.0	0.2	0.8	-	-
Miscellaneous and unidentified revenue	16.3	19.6	27.1	31.9	33.1	32.5
Total	48.2	54.5	57.1	73.4	82.7	82.0

Source: Ministry of Finance.

10.3 GFS Detailed Expenses, Acquisitions of Non-Financial Assets, and Financing

The government continues to manage expenses, with a focus on maintaining fiscal stability delivering a consistent budget surplus over the medium-term. As part of this strategy, Government will re-allocate funds towards key priority areas and commitments, deliver increased investment in key economic sectors such as agriculture, fisheries, tourism, and infrastructure, provide increased support for vulnerable groups and invest in national security, continue to support the disaster management and climate change program, and invest in social services across the health and education sectors. The government will also continue to implement public sector reforms, focusing on the organizational review to ensure the efficiency of public sector delivery, and meet ongoing loan commitments. Through

these measures, Government will seek to re-direct public spending to the most impactful projects, address inflationary pressures in the economy, and deliver sustainable economic growth.

A-Table 17: GFS Expenses (\$m)

Expense	Provisional FY2024 (\$m)	Original Estimate FY2025 (\$m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)
Compensation of employees	164.7	189.6	180.4	192.9	193.2	193.7
Use of goods and services	235.6	293.7	228.7	314.3	248.8	251.6
Interest	7.4	6.9	6.9	5.9	5.1	4.3
Subsidies	1.1	1.3	1.7	1.3	1.3	1.3
Grants	26.4	44.2	43.6	38.4	28.3	21.7
Social benefits	29.4	28.4	30.7	33.1	30.1	30.1
Other expense	27.4	47.7	34.1	35.9	38.4	52.9
Total	492.0	611.9	526.2	621.9	545.3	555.7

Source: Ministry of Finance.

The total expenses for FY 2026 are estimated at \$621.9m, an increase of \$95.8m or 18.2 percent, compared to the revised estimate of \$526.2m for FY 2025. This is primarily due to an increase in operational expenses, resulting from the initiation of special infrastructure and capital projects such as the SECURE bridge, Parliament House, and the Vava'u hospital re-construction. Going forward operational expenses are expected to revert to FY 2025 levels by FY 2028.

Use of Goods and Services: The use of goods and services category represents the largest component of Government expenditure, with the revised estimate for FY 2025 amounting to \$228.7m. This represents a significant decrease of \$65.0m when compared to the initial estimate of \$293.7m, with the decrease reflecting the re-allocation of Government expenditure towards priority initiatives such as road maintenance and subsidies for electricity, air and sea transport, through the implementation of reductions in overseas travel, overtime, and catering.

In FY 2026, the budget estimate for the use of goods and services rises to \$314.3m, representing an increase of \$85.7m from the revised budget estimate for FY 2025. This increase is primarily due to a rise in funding for community development programs, which will increase from a revised estimate of \$18.4m in FY 2025 to \$40.8m in FY 2026.

Compensation of Employees: Expenditure related to the compensation of employees represents the second-largest expense to Government. The revised estimate for FY 2025 is \$180.4m, which represents a minor decrease compared to the original estimate of \$189.6m. The decrease in expenses is due to unexpected delays in recruitment for vacant positions, as well as the close management of overtime expenses and contract services.

A-Table 18: GFS Compensation of Employees (\$m)

	Provisional FY2024 (\$m)	Original Estimate FY2025 (\$m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)
Compensation of employees						
Wages and salaries	152.9	175.3	167.4	178.0	178.3	178.8
Social contributions	11.7	14.3	13.0	14.9	14.9	14.9
Total	164.7	189.6	180.4	192.9	193.2	193.7

Source: Ministry of Finance.

In FY 2026, the compensation of employees is projected to rise to \$192.9m, an increase of \$12.5m from the revised estimate for FY 2025. Social contributions, which represent public civil service retirement contributions, calculated as 10 percent of salaries, follow the same trend as the compensation of employees. This increase is attributed to the increase in salaries from new positions and annual rewards within the Performance Management System. However, over the medium-term compensation of employees will remain stable between FY 2026 and FY 2028 as the Government seeks to reallocate funding towards key projects.

Interest Payments: The interest rate payment on external loans continues to form a significant component of Government expenditure. The revised estimated interest payments for FY 2025 amount to \$6.9m, although this is expected to decrease by \$1.0m to \$5.9m in the FY 2026 budget estimate, with this expenditure item expected to remain stable over the medium-term. The FY 2026 decrease reflects a reduction in the principal loan amount as external loan payments have proceeded according to schedule. This development will provide the government with additional fiscal space for economic development.

A-Table 19: GFS Interest Payments (\$m)

	Provisional FY2024 (\$m)	Original Estimate FY2025 (\$m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)
Interest						
To non-residents	5.6	4.8	4.9	4.0	3.2	2.4
To residents other than general government	1.7	2.1	2.1	1.9	1.9	1.9
Total	7.4	6.9	6.9	5.9	5.1	4.3

Source: Ministry of Finance.

Subsidies: Subsidies can be classified into two main types: subsidies directed towards public corporations and those directed towards private corporations. At present, the sole subsidies in operation are those allocated to private enterprises. These subsidies, such as aid development assistance, are facilitated through development committees, with expenses to Government amounting to a revised estimate of \$1.7m in FY 2025, which is expected to decrease to \$1.3m in FY 2026. Expenses related to these subsidies are expected to remain stable over the medium-term.

A-Table 20: GFS Subsidies (\$m)

	Provisional FY2024 (\$m)	Original Estimate FY2025 (\$m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)
Subsidies						
Subsidies to public corporations	-	-	-	-	-	-
Subsidies to private enterprises	1.1	1.3	1.7	1.3	1.3	1.3
Total	1.1	1.3	1.7	1.3	1.3	1.3

Source: Ministry of Finance.

Grants: Grants reflect the payment of contribution and subscriptions to regional and international organizations. The revised expenditure estimate of \$43.6m for FY 2025 represents a decrease of \$0.6m compared to the original forecast of \$44.2m. In FY 2026 forecast, expenditure on grants will fall to \$38.4m, with contributions earmarked for key institutions such as TVET, Christ Universities of Pacific, Tonga National University, and Tonga National Qualification Board. Going forward, the budget allocation for grant expenditure is anticipated to remain stable over the medium-term.

Social Benefits: The FY 2025 revised estimate for social benefit expenditure is \$30.7m, which is marginally higher than the initial estimate of \$28.4m. This increase is to cater for expenses including social welfare schemes and scholarships for students to attend both public and private schools. Over the medium-term, projected expenditure on social benefits will remain constant.

Other Expenses: Other expenses cover Government expenditure on items such as sport activities, grants to communities, and charitable organizations. The total revised estimate for other expenses in FY 2025 is \$34.1m, which represents a decrease of \$13.6m when compared to the original estimate of \$47.7m. This decrease is primarily attributed to decreased grant allocations for charitable organizations and sports activities.

Acquisition of Non-Financial Assets: The Government aims to fully implement its capital investment program in FY 2025, with major projects expected to continue over the medium-term. Total fixed asset acquisitions for FY 2025 are estimated at \$236.0m, an increase of \$1.2m compared to the initial estimate. This increase reflects ongoing major projects such as the Queen Salote Wharf extension and the Malaekula project. In FY 2026, fixed asset acquisitions are expected to rise further to \$252.4m, driven by the implementation of key projects including the Fanga'uta Lagoon Bridge, the new Parliament Building, Vava'u Hospital, and several energy initiatives.

A-Table 21: GFS Acquisition of Non-Financial Assets (\$m)

	Provisional FY2024 (\$m)	Original Estimate FY2025 (\$m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)
Fixed assets						
Buildings and structures	124.7	162.9	121.4	145.3	197.9	203.8
Machinery and equipment	57.2	34.0	83.6	102.5	59.8	34.6
Other fixed assets	6.3	33.4	27.4	0.5	3.8	7.5
Land	1.2	4.5	3.6	4.1	24.3	19.3
Total	189.3	234.8	236.0	252.4	285.9	265.2

Source: Ministry of Finance.

Financing of Financial Assets and Liabilities: The Government recorded a fiscal surplus of \$55.5 million in FY 2026. This surplus was utilized for financing activities in line with the government's fiscal strategy, which emphasizes reducing public debt obligations and strengthening financial asset positions.

Description	Amount (\$m)
Fiscal Surplus	55.5
Financial Assees (Domestic)	(37.1)
Currency and Deposits	(0.9)
<i>Cash Reserve</i>	(0.9)
Loans	(36.0)
<i>Economic Growth Fund (GDL)</i>	(56.4)
<i>Principal repayment from on-lent</i>	20.4
Shares and other equity	(0.1)
<i>Equity payment to other enterprises</i>	(0.1)
Financial Liabilities	(18.4)
Domestic	30.0
<i>Loan (bond receipts)</i>	43.6
<i>Public Debt Repayment</i>	(13.6)
Foreign	(48.4)
<i>Foreign Public Debt Repayment</i>	(48.4)
Total Financing	(55.5)

A-Table 22: GFS Financing of Financial Assets and Liabilities (\$m)

	Provisional FY2024 (\$m)	Original Estimate FY2025(\$ m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027(\$m)	Projectio n FY2028 (\$m)
Net Acquisition Of Financial Assets And Liabilities (Financing)	(53.9)	(49.8)	(78.0)	(55.5)	(80.4)	(79.6)
Financial Assets	(10.4)	(2.8)	(29.4)	(37.1)	(30.7)	(28.0)
Domestic	(10.4)	(2.8)	(29.4)	(37.1)	(30.7)	(28.0)
Currency and deposits	(5.7)	5.3	(25.5)	(0.9)	(13.7)	(11.0)
Loans	(2.2)	(0.7)	3.3	(36.0)	(16.9)	(16.9)
Shares and other equity	(2.5)	(7.4)	(7.3)	(0.1)	(0.1)	(0.1)
Financial Liabilities	(43.4)	(46.9)	(48.5)	(18.4)	(49.7)	(51.6)
Domestic	3.0	(0.8)	(1.8)	30.0	-	-
Loans	14.0	15.0	15.0	43.6	19.9	15.1
Repayments	11.0	15.8	16.8	13.6	19.9	15.1
Foreign	(46.4)	(46.1)	(46.7)	(48.4)	(49.7)	(51.6)
Loans	-	-	-	-	-	-
Repayments	46.4	46.1	46.7	48.4	49.7	51.6

Source: Ministry of Finance.

10.4 Reconciliation between the GFS and Estimates for FY 2026

The reconciliation between the cash-based budget estimates and the Government Finance Statistics (GFS) presentation is a critical process to ensure that the Government of Tonga fiscal reporting aligns with international statistical standards while remaining consistent with national budgetary practices.

Government budget estimates are prepared on a cash basis, recording actual cash inflows and outflows during the fiscal year. However, for economic analysis and international comparability, the Government also prepares fiscal data in accordance with the GFS framework, which adjusts these cash figures to account for the acquisition of non-financial assets and financing transactions.

The reconciliation bridges the differences between these two reporting approaches, ensuring transparency and accuracy in public financial management.

A-Table 23: Reconciliation between GFS and Budget Estimates for FY 2026 (\$m)

Reconciliation between Cash Inflows to the Government of Tonga Fund and Budget Revenues	Budget Estimate 2025/26		
Inflows to the Government of Tonga Fund			483,728,800
<i>Plus Inflows to other Funds</i>			
Budget Support		120,236,000	
Donor In-kind		243,889,100	
Donor Cash Aid		145,926,300	510,051,400
Total Inflows (as per Estimates)			993,780,200
<i>Less Inflows classified under Non-financial assets receipts from disposal of Fixed & Non-fixed assets</i>			68,300
<i>Less Inflows classified under financial transactions receipts from disposal of Financial Assets</i>			
External Financing		-	
Domestic Financing - Bond receipts		43,566,000	
Onlent repayment from TDB and Pes	10,962,800		
Other principal repayment	9,427,000	20,389,800	63,955,800
Total Revenues (as per GFS Presentation)			929,756,100
Reconciliation between Cash Outflows from the Government of Tonga Fund and Budget Expenditures	Budget Estimate 2025/26		
Outflows from the Government of Tonga Fund			482,780,200
<i>Plus Outflows from other funds</i>			
Budget Support	120,236,000		
Donor In-kind	243,889,100		
Donor Cash Aid	145,926,300		510,051,400
Total Outflows (as per Estimates)			992,831,600
<i>Less Outflows classified as offsets to expenditure acquisition of Non-financial assets/liabilities</i>	252,422,700		
<i>Less Outflows classified as financing transactions payment for acquire of Financial Assets</i>	100,000		
External Financing	48,407,000		
Domestic Financing	69,966,000		
			370,895,700
Total Expense (as per GFS Presentation)			621,935,900

Source: Ministry of Finance.

11 ANNEX IV: RECURRENT BUDGET SUPPLEMENTARY INFORMATION

11.1 Recurrent Budget Performance in FY 2024

A recurrent budget surplus of \$23.8m is estimated to have been achieved at the end of F Y2024 (including bond receipts), due to better than anticipated performance in domestic revenue collecting of \$20.1m more than the original target; together with an under-spending of the budget by \$10.6m.

The positive performance of domestic revenue was reflected mainly in the collection under consumption tax on imports, which is categorized under the *Tax on Goods and Services* (collecting \$11.2m more than the target). This was followed by positive performance from the income tax category (collecting \$10.9m more than target), which was mainly from large businesses' corporate tax. The average collection in the previous 5 years is \$375.7m.

The under-spending of the budget was mainly from the *Wage Bill* spending category (under-spent by \$8.4m) due to vacancies. These were followed by under-spending also in the *Private Sector Development Support* category (under-spent by \$4.6m) mainly due to delays in spending of Economic Growth Fund. The average spending over the previous five years was \$368.0m.

A-Table 24: Recurrent Budget Overview Performance (\$m) in FY2020 - FY2024.

FY2020 - FY2024 Recurrent Budget Overview Performance	Actuals FY2020 (\$m)	Actuals FY2021 (\$m)	Actuals FY2022 (\$m)	Actuals FY2023 (\$m)	Original Budget FY2024 (\$m)	Actuals FY2024 (\$m)	Variance (\$m)	Variance (%)	percent spent/received (%)
Revenues	350.47	338.94	350.22	406.30	392.30	432.7	40.4	10.3	110.3
Domestic Revenues	312.90	311.73	298.12	352.60	341.84	361.9	20.1	5.9	105.9
Tax	229.58	237.42	250.83	278.10	275.43	292.5	17.1	6.2	106.2
Income Tax	52.47	48.37	55.58	58.00	55.38	66.3	10.9	19.6	119.6
Trade Taxes	18.08	18.24	20.41	25.80	24.33	25.0	0.6	2.6	102.6
Tax on Goods & Serv.	95.01	106.93	109.12	128.30	121.39	132.6	11.2	9.2	109.2
Excise Tax	64.01	63.68	65.73	66.00	74.33	68.7	-5.7	-7.6	92.4
Non-Tax	83.33	74.32	47.29	74.50	66.41	69.5	3.0	4.6	104.6
Fees & Licenses	28.10	23.97	20.85	27.60	28.93	28.5	-0.4	-1.5	98.5
Entrepreneurial & Prop.	21.23	14.68	9.49	9.90	21.69	25.4	3.8	17.3	117.3
Miscellaneous	1.65	0.43	0.76	0.50	0.42	1.1	0.7	166.3	266.3
Capital & Transfers	32.35	35.24	16.19	36.50	15.37	14.4	-1.0	-6.4	93.6
Budget Support	37.57	27.21	52.10	53.70	50.47	70.7	20.3	40.2	140.2
Expenditures	332.60	343.59	359.81	395.00	419.54	408.9	10.6	2.5	97.5
Wage Bill	148.93	155.81	166.91	163.90	177.44	169.1	-8.4	-4.7	95.3
Operations	133.08	145.20	144.24	170.40	157.35	165.6	8.3	-5.3	105.3
Assets	38.14	17.18	14.07	17.20	12.17	8.5	-3.7	-30.1	69.9
Debt	12.44	25.40	34.58	43.50	67.12	64.8	-2.3	-3.4	96.6
Private Sector Development Support	-	-	-	-	5.45	0.9	-4.6	-84.3	15.7
Balance	17.88	-4.65	9.59	11.30	-27.23	23.8	51.01		

Source: Ministry of Finance.

11.2 Revenue Budget by Major Category

Income Tax

According to the average performance of collections in the past five years, Corporate Tax and PAYE remained the largest share of collections. In FY 2024, Corporate tax exceeded its original target due to collection of arrears on deferred income tax receipts from large businesses during the COVID-19 pandemic, but also that these businesses were gradually recovering from the pandemic and HTHH impacts. Additionally, PAYE receipts collected from government employees also exceeded the original target primarily due to an increase in the number of recruitments of public servants during the financial year and COLA (Cost of Living Adjustment) on public servants' salaries. Furthermore, there were

improved administration and working relationships between the Inland Revenue department and taxpayers including non-resident employees to collect their withholding tax revenues, coupled with an increase in number of non-resident employees in FY 2024.

A-Table 25: Recurrent Revenue by Category FY 2024.

Revenue by Category	Actuals FY2020 (\$m)	Actuals FY2021 (\$m)	Actuals FY2022 (\$m)	Actuals FY2023 (\$m)	Original Budget FY2024 (\$m)	Actuals FY2024 (\$m)	Variance (\$m)	Variance (%)	percent spent/ received (%)
Income Tax	52.5	48.6	55.6	58.0	55.4	66.3	10.9	19.6	119.6
Trade Tax	18.1	18.2	20.4	25.8	24.3	25.0	0.6	2.6	102.6
Tax on Goods & Services	95.0	106.9	109.1	128.3	121.4	132.6	11.2	9.2	109.2
Excise Tax	64.0	63.7	65.7	66.0	74.3	68.7	-	5.7	-7.6
Fees and Licenses	28.1	24.0	20.8	27.6	28.9	28.5	-	0.4	-1.5
Entrepreneurial and Property	21.2	14.7	9.5	9.9	21.7	25.4	-	3.8	17.3
Miscellaneous	1.6	0.4	0.8	0.5	0.4	1.1	0.7	166.3	266.3
Capital & Transfers	32.4	35.2	16.2	36.5	15.4	14.4	-	1.0	-6.4
Budget Support	37.6	27.2	52.1	53.7	50.5	70.7	20.3	40.2	140.2
Grand Total	350.5	338.9	350.2	406.3	392.3	432.7	40.4	10.0	110.3

Source: Ministry of Finance.

Trade Tax

The average performance of the collections in the past five years was at an increasing rate throughout the financial years. Despite the increasing rate, the target collection for FY 2020 to FY 2022 was not met due to the tax exemptions but in FY 2023 and FY 2024 the collections were higher than the target allocations due to lifted of relevant tax exemptions in December 2022, particularly those related to relief efforts during the pandemic and HTHH impacts.

Tax on Goods & Services

The average performance of the collections in the past five years was at an increasing rate, in FY 2020 the allocated budget was not met due to tax exemptions on imported goods and in the other four years FY 2021 to FY 2024 the collection exceeded its original target. This category was the main driver of positive performance in tax revenue collection, which was attributed to the higher prices and increase in the volume of goods imported coupled with lifted of tax exemptions in December 2022, particularly those related to relief efforts during the pandemic and HTHH impacts. Additionally, the on-going effort on improving compliance by implementation of the Electronic Sales Register System to help enhanced efforts to track and report on more businesses and their accurate record keeping of tax information (using real-time data), leading to higher collection in domestic consumption tax.

Excise Tax

The average collection for the past five years was at an increasing rate, in FY 2020 the target allocations was not met, in FY 2021 to FY 2022 the collection exceeded its original target and again under collect in FY 2023 to FY 2024. The lower collection was attributed to various factors including lower demand for the related imported goods subject to excise tax such as fuel, cigarettes, and alcohol due to continuous inflationary pressures and lower levels of supply. At the same time, the supply levels are still high but some of these imported goods have changed their contents that would no longer qualify them under the related excise taxes. For example, an imported type of fizzy drink would now have had a lower level of sugar content than before which contributes to decrease in excise tax.

Fees and Licenses

On average receipts, the highest collection was from motor license registration and annual motor vehicle examination. The low collections are primarily due to low charges on government fees and charges which need to be review soonest to support the collections from domestic revenue. In FY 2024, the highest collection was from the passport fees which reflects citizens are either joining seasonal works

or migrations. In addition, annual motor vehicle examination and motor license registration are key drivers in the collection receipts.

Entrepreneurial and Property Income

The collection exceeded its original estimate due to high collection from Government land rental, dividend from National Reserve Bank of Tonga and dividend arrears collected from public enterprises whereas on average the target collection was not met, and majority of the under-collection was from the dividend received from other investments throughout the five financial years.

Capital and Transfers

Lower than targeted collection was due to the low receipt of loan repayments from clients, including businesses that were affected by the riots in 2006. In addition, the weakening of the Tongan pa'anga through exchange rates fluctuations had impacted the actual amount received as loan receipts from the IMF (Rapid Credit Facility).

Budget Support

\$20.3m were collected more during the financial year as expected from Australia and New Zealand. However, European Union budget support for FY 2023 was received in FY 2024 \$2.9m. The remainder for FY2024 was not received but will be released in FY 2025 due to pending Government Policy actions.

11.3 Recurrent Budget: Expenditure Categories

Wage Bill Categories (incl. Established Staff, Unestablished Staff and Pension/ Gratuities)

The under-spending of the wage bill categories was primarily due to savings from vacant positions, including resultant positions that were vacated either through promotions to existing vacancies or resignations due to the exit of civil servants to higher paid jobs and overseas seasonal workers schemes. In addition, the introduction of the new overtime policy (capping overtime hours at 40 per month) has resulted in lower overtime costs.

A-Table 26: Recurrent Expenditure by Category FY 2024.

Expenditure by Category	Actuals FY2020 (\$m)	Actuals FY2021 (\$m)	Actuals FY2022 (\$m)	Actuals FY2023 (\$m)	Original Budget FY2024 (\$m)	Actuals FY2024 (\$m)	Variance (\$m)	Variance (%)	percent spent/ received (%)
Established Staff	147.6	152.5	140.8	135.4	158.0	149.8	8.2	5.0	95.0
Unestablished Staff	12.0	10.6	10.6	8.9	15.5	14.7	0.8	5.0	95.0
Travel & Communications	19.6	9.8	10.2	12.5	13.6	16.2	-	2.6	-19.0
Maintenance & Operations	23.8	21.9	27.0	26.1	19.7	23.2	-	3.5	-18.0
Purchase of Goods & Services	64.4	61.7	58.7	46.1	59.6	64.9	-	5.3	-9.0
Grants & Transfers	58.1	48.0	46.4	47.4	54.5	57.0	-	2.5	-5.0
Development Duties	2.7	2.7	2.9	1.0	4.8	1.9	2.9	61.0	39.0
Debt	43.5	34.6	25.4	38.1	67.1	64.8	2.3	3.0	97.0
Contingency Fund	-	-	-	-	5.0	-	5.0	100.0	0.0
Pension & Gratuities	4.1	3.9	4.4	4.6	3.9	4.5	-	0.6	-16.0
Assets	17.2	14.1	17.2	12.4	12.2	8.5	3.7	30.0	70.0
Equity Payments	0.4	-	-	-	0.2	2.5	-	2.3	-1150.0
Private Sector Development	1.4	-	-	-	5.4	0.9	4.6	84.0	16.0
Grand Total	394.9	359.8	343.6	332.6	419.5	409.0	10.6	3.0	97.0

Source: Ministry of Finance.

Purchase of Goods & Services

Purchase of Goods & Services – higher than originally anticipated by mainly to spending of government ministries on electricity coupled with spending on medical drugs and medical supplies reflecting the inflationary pressures experienced during the financial year.

Maintenance & Operations

Actual spending was higher than originally estimated for maintenance of buildings, particularly under the key service delivery ministries, including Ministry of Education & Training's maintenance of school infrastructures and extensions to cater for the government middle schools since the expansion of primary school level to include Forms 1 and 2. In addition, were road maintenance costs and spending on fuel as energy prices increased during the financial year.

Travel and Communications

Higher than originally estimated due mainly to an increase in overseas travel costs as borders re-open since the COVID-19 pandemic lockdown and most international meetings that used to hold virtually during the pandemic were now resumed face-to-face, and so were domestic travel costs due to the national agricultural show after being deferred since the pandemic.

Grants and Transfers

Actual spending was higher than originally estimated for Grant, Other Special Projects, Contribution to Organizations mainly for contributions made by the government of Tonga to individuals, non-government organizations, public enterprises, or other government agencies. as the major driver of over-spending over the past four (4) FY recurrent budget were on constituency grants for constituency costs such as allocations fund for community police, rubbish bin, water tank etc. In addition, there was a \$5.4m allocation for Grants from Asian Development Bank (ADB) budget support were fully utilized due to 100percent Grant to TNU.

Equity Payments

The higher than original estimated were primarily driven by the government's intensified efforts in post-disaster reconstruction and infrastructure development following the Hunga Tonga Hunga Ha'apai volcanic eruption and tsunami.

12 ANNEX V: DEVELOPMENT BUDGET SUPPLEMENTARY INFORMATION

12.1 Development Expenditure by TSDF Pillar

Under the Development Budget in FY 2026, Economic Institutions will have the highest allocation (\$102.8m), followed by Natural Resources & Environment Inputs (\$99.3m). The expectations of development funds will be emphasized on uplifting the economy through bolstering domestic economic productivity in the production sector, but also a focus establishment of financing avenues and facilities that will support the local banks, private sectors, and SMEs. In addition, to further develop key infrastructures focusing on land, marine and air transportation but also government infrastructural facilities that focus on enhanced social institutions and government facilities.

A-Table 27: Development Budget Allocation by TSDF Pillar.

TSDF Pillar	Original Estimate FY2025 (\$m)	Revised Estimate FY2025 (\$m)	Estimate FY2026 (\$m)	Projection FY2027 (\$m)	Projection FY2028 (\$m)
Pillar 1: Economic Institutions	36.7	49.7	102.8	18.3	24.6
Pillar 2: Social Institutions	116.2	81.5	76.7	72.1	75.2
Pillar 3: Political Institutions	101.6	50.7	37.3	46.7	35.5
Pillar 4: Infrastructure & Technology Inputs	154.2	151.5	73.8	162.1	169.9
Pillar 5: Natural Resources & Environment Inputs	43.2	41.8	99.3	68.2	40.9
Grand Total	451.9	375.2	389.8	367.3	346.2

Source: Ministry of Finance

12.2 Development Budget (Expenditure) by Major Project (\$m)

A-Table 28 outlines the major projects that are currently initiated in Tonga by Development Partners. These include ADB initiatives such as Tonga GREST, Sustainable Women Entrepreneurship and Innovative Finance Project, ADB Local Currency Bond, Nuku'alofa Network Upgrade Project, Integrated Aged Care Project, Tonga SECURE Project, Nuku'alofa Ports Upgrade and Integrated Urban Resilience Project. The World Bank - Tonga Safe & Resilient School Project, Pacific Resilient Energy Project and the co-financing of the Tonga SECURE Project.

A-Table 28: Total Development Budget (Expenditure) by Major Projects (\$m).

Major Projects	Estimate FY2026 \$m	Projection FY2027 \$m	Projection FY2028 \$m
Hawaiki(Tonga Cable)	35.5	0.0	0.0
New Fishing Vessel	30.0	36.7	18.4
Tonga Safe & Resilient Schools Project	25.5	22.2	22.7
Tonga Climate Resilience Transport Project- TCRTF II	23.1	28.5	24.0
Sustainable Womens Entrepreneurship and Innovative Finance Project	21.7	0.0	0.0
Tonga SECURE Project(Fanga'uta Bridge)	21.0	94.0	116.0
Bio-Gas Circular Economy	20.0	0.0	0.0
Tonga Renewable Energy Stabilisation Package Proj(GREST)	12.0	1.5	0.0
Pacific Resilient Energy Project(PREP)	11.9	0.0	0.0
Scholarship	11.1	11.5	11.5
ADB local currency bond	10.0	10.0	20.0
Parliament New Building	10.0	30.0	18.0
Integrated Aged Care Project: SF Grant No.0915-TO	9.0	7.1	7.2
Integrated Urban Sector Resilience Project (IURSP)	8.4	9.5	2.4
Nuku'alofa Ports Upgrade Project - Queen Salote Wharf	8.3	0.0	0.0
Nuku'alofa Network Upgrade Proj	8.0	6.8	0.6
Climate Change Trust Fund Operating	7.5	8.0	6.0
NPGA	7.0	0.0	0.0
Tonga National Musuem	5.1	0.0	0.0

Source: Ministry of Finance.

The Government of Australia will continue to assist with both local and regional scholarships, while also co-financing the development of Parliament House and Hawaiki (Tonga Cable) with NZ MFAT. The New Zealand Government continues to support the strengthening of community resilience in the Water Sector through the Climate Change Trust Fund. The People's Republic of China will invest in 3 long-line fishing vessels together with the Tonga bio-gas production project. The Government of Japan – JICA, through the NPGA Program will provide 2 patrol boats for the Ministry of Revenue & Customs. The Saudia Arabia Government supports the Tourism Sector through the construction of Tonga National Museum.

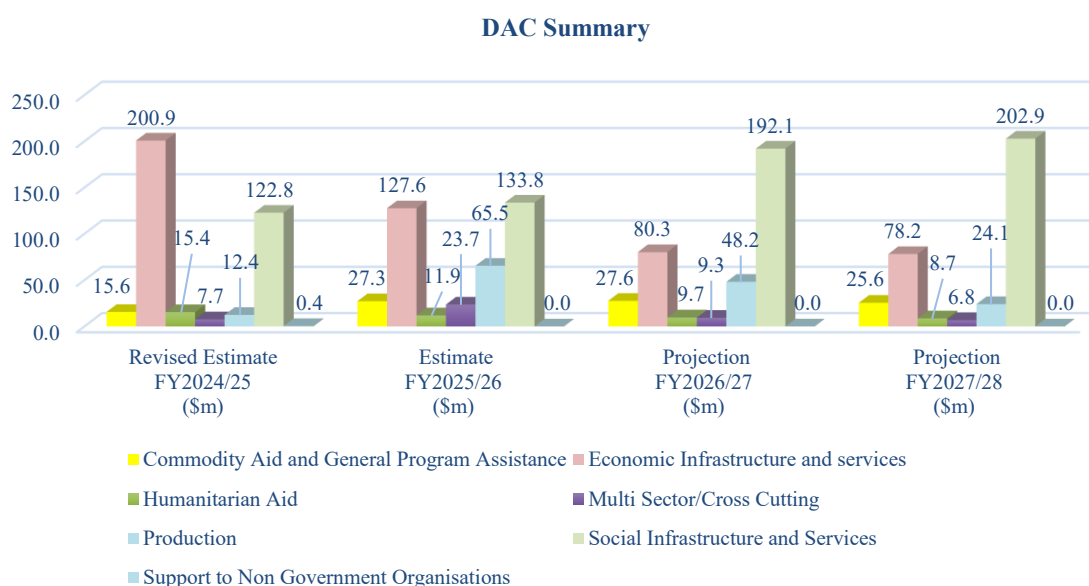
12.3 Development Funded Project Expenditure by Development Aid Classification (DAC)

A-Figure 21 shows that the majority of investment is directed towards the *social infrastructure and services sector*, with a total of \$133.8m or 34.5 percent of the aggregate development envelope for FY2026. This reflects Government's new directive, in refocusing resource allocations into more impactful projects that will make a meaningful change in the lives of the people of Tonga, and includes the Tonga Hawaiki Project, GREST Project, Tonga Safe and Resilient Schools Project.

This is followed by *the economic, infrastructure, and services sector* with \$127.6m or 32.7 percent of the total development funding, covering investments including the construction of the new Parliament House, the National Museum, and the Tonga Climate Resilient Transport Project among other initiatives. The *production sector* with 65.5 or 16.8 percent of development funding, collaborates with Development Partners in Tonga's bio-gas production project, and also in the provision of 3 long-line Fishing Vessels to increase the domestic seafood supply.

Tonga's Partners in Development continue to provide ongoing support across the remaining sectors, with examples including the support provided to Non-Government Organizations.

A-Figure 21: Total Development Budget (Expenditure) by Major Projects (\$m).



Source: Ministry of Finance.

12.4 Multilateral Development Partners

12.4.1 World Bank

The World Bank continues to partner with Tonga under its IDA Programming, with the following ongoing and new projects expected to be implemented in FY 2026:

- 1) **Health Enhancement and Resiliency in Tonga (HEART) Project** is the newest World Bank project which has established a Project Management Unit and a Central Services Unit. The project activities include increasing the capacity and resilience of Tonga to prevent, detect and effectively control communicable disease (NCD) and strengthening the access to quality and resilient health services in Vava'u by upgrading the hospital.
- 2) **Central Service Unit (CSU) 2.0** – The 1st term of the Central Service Unit ended in December 2024 but has been extended to continue the support and advice to the Ministry of Finance in the preparation and implementation of World Bank Projects. The focus of CSU 2 is to promote greater impact of the Government's Development objectives through high quality performance of World Bank Projects based on advisory guidance and capacity development.
- 3) **Correspondent Banking Relations** – this regional project recently came into effect in April 2025 and will enable Tonga to have continuous access to correspondent banking services with other Pacific Island countries.
- 4) **Co-Financing of the Tonga SECURE Project** – As a flagship Project for the Government in FY 2026, the World Bank has moved forward in supporting the Government in co-financing with the Asian Development Bank, the Fanga'uta Bridge Project, access roads and drainage systems.
- 5) **Pathway to Sustainable Oceans Project II (PSOP II)** – There is ongoing discussion to carry on the PSOP Project that is expected to carry into a second phase in FY2026 and corresponding years, with expectations that the ongoing project will support sustainable fishery management for Tonga including the implementation of the Tonga Fisheries Sector Plan 2.

- 6) Tonga Digital Transformational Project II – The Project is expected to be completed in May 2025; however, the Government and the World Bank are in discussions on the continuation of the Project, with this viewed as priority of Government to further improve Tonga's capacity for digital Public Service Delivery.
- 7) **Pacific Resilience Program (PREP)** – The construction of the Tonga National Disaster Risk Management Office (NDRMO) and Meteorology Department Building has progressed well and is expected to be completed by the end of 2025. There are still ongoing activities that includes the installation of marine monitoring stations, seismic detection systems, and volcanic monitoring equipment is still underway that are rolled out to Tongatapu and the Outer-Islands.
- 8) **Statistical Innovation and Capacity Building (SICB)** – This project will support the implementation of the Household Income and Expenditure Survey (HIES 2025) for Tonga contributing to enhanced national data systems.
- 9) **Tonga Safe and Resilient Schools Project (TSRSP)** – With additional financing, this project focuses on rebuilding schools affected by natural disasters, including tsunami-damaged schools in Kolomotu'a, 'Eueiki, Fonoi, Nomuka, and Tungua. It also includes risk-based school construction with tenders proceeding for the rehabilitation of 62 schools. The Education Management Information System (EMIS) has been rolled out to 106 government schools and curriculum assessments for Levels 1–4 have been completed but for Level 5 and 6 are currently underway.
- 10) **Tonga Climate Resilient Transport Project II (TCRTP II)** – will support road upgrades on: Liku Road, Lot 2 and Vava'u South-west V-2 and V-12. The Engineering designs are being finalized for roads in Ha'apai (HP-A34 Main Road 2) and 'Eua (E30 and E31 Main Road). The Maritime activities include feasibility studies for domestic vessel slipways in Nuku'alofa which was signed in February 2025 and the feasibility study for Ha'apai and 'Eua's wharf. Aviation works include runway rehabilitation in 'Eua, which is now underway following contract signing in January 2025. Additionally, fire trucks for the airport will be procured for 'Eua, Ha'apai, and Vava'u.

12.4.2 Asian Development Bank

The Asian Development Bank (ADB) continues to support the Government of Tonga in key priority areas including health, elderly care, transport infrastructure, climate resilience and disaster recovery, renewable energy, urban development, and public sector management. These align with ADB's Pacific Approach 2021–2025.

The ADB will continue to support development in Tonga, in FY 2026 with a committed pipeline of new initiatives:

- The Tonga SECURE Project, which supports resilience and sustainability of a greater Nuku'alofa including the Fanga'uta Lagoon Bridge which discussions are presently ongoing before grant negotiation in November 2025.
- The Sustainable Women Entrepreneurship and Innovative Finance Project in Tonga, which aims to support female entrepreneurship and institutional capacity for financial intermediation and is expected to be signed in October 2025.
- The ADB will partner with Tonga to issue the ADB local currency bond, which will foster the development of Tonga's currency local financial markets as well as regional debt capital markets. This will allow for greater access to credit, supporting private sector development.

There are seven (7) ongoing ADB-supported projects in Tonga which includes:

- 1) **Tonga Renewable Energy Project (TREP)**– Battery energy storage systems and grid-connected renewable energy generation have been successfully completed in Tongatapu and the outer islands, alongside the modernization of Tonga Power Limited's (TPL) Central Control Center. Remaining minor works are ongoing in the Ha'apai and Vava'u outer islands, scheduled for completion in May 2025. Operations and maintenance (O&M) arrangements for the outer island assets are yet to be finalized, pending confirmation by MEIDECC and TPL, as TPL awaits the outcome of its tariff review.
- 2) **Nuku'alofa Network Upgrade Project (NNUP) Area 5** – The network upgrade program is progressing well and has achieved a total of 80 new household connections to date, as well as the instillation of 22.9km of voltage networks to rehabilitate the existing network. As of now, overall implementation progress stands at 45 percent, with upcoming works including the target of installing the remaining 43km of voltage network rehabilitation.
- 3) **Grid Enhancement for Sustainable Energy Transition (GREST)** – The issuance of the works bid package is contingent upon the finalization and signing of the Power Purchase Agreement (PPA) between Tonga Power Limited and the independent power producer for the 20-megawatt solar photovoltaic project in Fualu. The identification and confirmation of suitable land for the project is still pending.
- 4) **Systems Strengthening for Effective Coverage of New Vaccines in the Pacific** – The cold chain inventory has been established, and pneumococcal conjugate (PCV) and rotavirus (RV) vaccines are now fully integrated into the national routine immunization schedule, each achieving coverage rates of 99 percent or higher. To improve uptake of the human papillomavirus (HPV) vaccine, the Ministry of Health has implemented dedicated outreach campaigns. The project initially scheduled to close in November 2025 but has extended for twelve months completing in November 2026.
- 5) **Introducing E-Government Through Digital Health Project (E-Health)** - The National Health Information System has been successfully rolled out nationwide, with ongoing integration of additional information systems. At the same time, the Personal Health Information Protection Bill is in the process of being reviewed.
- 6) **Nuku'alofa Port Upgrade Project (NPUP)** – The construction progress is approximately 75 percent complete, with the commissioning of Port No. 1 slated for 2024. The remaining tasks include the extension and repair of Wharf 2, pavement works, revetment works for Wharf 2, the construction of the access road to the port, and other miscellaneous activities. The civil works are expected to be finished by October 2025.
- 7) **Integrated Urban Resilience Sector Project (IURSP)** – Four civil works contracts have been awarded for upgrading the Tapuhia waste landfill facility, addressing flooding issues with new water drainage on selected public lands in Nuku'alofa, and improving part of the Nuku'alofa water reticulation system. In addition, 12 goods and equipment packages have been procured and distributed to LTD/MOI, TWB, and WAL to enhance operational efficiency. Four civil works packages are still awaiting award, with price escalation posing a challenge. Efforts are underway to strengthen the support services for both the PMU and PIAC.
- 8) **Integrated Aged-Care Project (IACP)** – This project aims to build community-based aged care centers which includes three aged care centers in Tongatapu located in Tatakamotonga, Houma, Hala Hihifo and one center in Vava'u in Makave. The first batch of caregiver allowances was launched on 16th April 2025. The design for the aged care centers is currently underway with the home modification clarification. The land for the headquarter center, Eastern and Vava'u are confirmed while land compensation is still in progress for the Western center.

12.4.3 Green Climate Fund

As the designated Delivery Partner to the Green Climate Fund (GCF), the Ministry of Finance continues to commit its efforts to meet the accreditation requirements necessary to become an accredited entity under the GCF framework. Currently, five readiness projects are underway, implemented by a range of line ministries and civil society organizations. These include the Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Climate Change and Communications (MEIDECC), which serves as Tonga's National Designated Authority (NDA) to the GCF, as well as the Ministry of Lands and Natural Resources, the Ministry of Fisheries, and the Civil Society Forum of Tonga.

The primary objective of these readiness projects is to develop concept notes and project proposals for submission to the GCF Secretariat for potential funding. The most recent readiness project, approved in the second quarter of FY2025, is a multi-year initiative that will support the engagement of a consultant to assist with Tonga's ongoing GCF accreditation process.

12.4.4 United Nations

The United Nations presence in Tonga is primarily coordinated through various specialized agencies, including the United Nations Development Program (UNDP), Food and Agriculture Organization (FAO), International Organization for Migration (IOM), International Food and Agricultural Development (IFAD), World Health Organization (WHO), United Nations Population Fund (UNFPA), United Nations Capital Development Fund (UNCDF), United Nations Children's Fund (UNICEF) and other UN family existing in Tonga. These agencies support national priorities across government, private sector, rural areas and civil society by providing technical assistance, capacity-building programs, and the supply of essential equipment and tools.

The United Nations Sustainable Development Cooperation Framework (UNSDCF) 2023-2027 is currently implemented across all the UN family for FY 2026.

International Fund for Agriculture Development (IFAD)

International Fund for Agricultural Development (IFAD) fund the Tonga Rural Innovation Project Phase II (TRIP II) helps to construct community multi-purpose halls and other critical infrastructure such as water towers, drilling of water boreholes, provision of water pumps, and installation of water tanks for household drinking water. Additionally, the project has supported small-holder farmers with land preparation, fencing, seeds, seedlings, and capacity building for both home gardening (primarily driven by women) and farming on tax allotments (driven by men). TRIP II is scheduled to conclude on June 30, 2025, with final closure set for December 31, 2025.

Tonga Rural III

The next phase of the TRIP Project (TRIP III) will include multiple pilot schemes to promote the commercialization of smallholder farmers' agricultural output under TRIP II. This will include some additional communities based on IFAD, with the overall policy discussed with the Government targeted to focus on poor and vulnerable populations in rural communities. The main pillars targeted under the TRIP project strategy are geographic targeting, a direct and inclusive approach, empowerment and capacity building, and a practical, solution-oriented approach to develop policy and procedures to support inclusion of the poor. Under the strategy, smaller rural communities will be prioritized to ensure meaningful investment and engagement given the limited funding. The TRIP project has expanded its geographic target areas from an initial 62 communities engaged with under TRIP I, to 122 communities in TRIP II.

International Organization for Migration (IOM)

IOM has been facilitating events such as the Strengthening Durable Solutions and Disaster Risk Management Project to draft the migration profile, supporting a Blueprint for Strengthened Integrated Border Management in Tonga, conduct Disaster Displacement and Evacuation Management Cluster Meetings. The Strengthened Capacity of Border Control for Responding to Infectious Diseases in Tonga and Strengthened Access to Regular Pathway to Labour Mobility in Tonga. IOM supports the refurbishment the Migrants Resource Center (MRC) and assisting the government in hosting the pre-departure briefing for seasonal workers. The Pacific Australia Mobility (PALM) Project will be implemented from July 2025 – 2027 and activities are currently in discussion.

12.5 Bilateral Development Partners

12.5.1 Government of Australia

Department of Foreign Affairs and Trade (DFAT)- Development Assistance in Tonga.

Thematic Areas of Investment:

1. Supporting economic, governance and private sector development reforms.
2. Promote a more effective, efficient and equitable health system.
3. Improving economic opportunities for Tongan workers through investment in skills development.
4. Cross cutting issues such as gender, climate change, elderly and disability.

Pillar 1- Health Security.

Australia's assistance to the Ministry of Health includes supporting health system reform to strengthen primary health care and health promotion services, as well as the delivery of the Package of Essential Health Services. There is also further support to civil society and community health to advance the fight against non-communicable diseases.

Pillar 2- Stability.

Australia is the leading development partner working in partnership with the Government of Tonga, Tonga police, and civil society to address family violence. Australia has expanded support to women and girls, including increasing efforts to improve the prevention of and response to family violence.

Australia continues to provide support to democratic institutions including the electoral commission and members of the national media association.

Australia also has longstanding partnerships to enhance the capability of His Majesty's Armed Forces and Tonga Police.

Pillar 3- Economic Recovery.

Australia is providing elevated levels of direct budget support to the Government of Tonga in response to recent shocks to ensure fiscal stability and economic recovery. In collaboration with the Government of Tonga and other development partners, Australia's budget support is boosting Tonga's social protection mechanisms, and leveraging fiscal and public sector policy reforms.

Australia will also provide further support to Tonga's key priorities in aviation, renewable energy, and nation-building infrastructure, including an upgrade to Nuku'alofa's main port, construction of a new

parliament house and office of the legislative assembly, and upgrades to basic education infrastructure across all of Tonga's island groups.

Regional programs supporting sustainable economic development through labor mobility and agriculture and identifying opportunities for commercial growth are also supported through Australian development funding. Australia is contributing to private sector growth by supporting growers through assistance with efforts to upgrade their operations and enter export markets under the regional PHAMA+ and Market Development Facility programs.

Labor mobility continues to play a significant role in Tonga's economy through the PALM scheme.

The Government of Australia's major investments for FY 2026 will focus on the following co-financed projects:

- a) The construction of a new Tonga Parliament House and the Office of the Legislative Assembly to replace facilities damaged by Cyclone Gita, and
- b) The development of the Tonga Hawaiki Branch System—an international undersea telecommunications cable connecting Neiafu, Vava'u.
- c) Heart Project – Components 2 for the construction of Vava'u Hospital

In addition, Australia will continue to support other initiatives, including the Agriculture Storage Pack House Facility for Hihifo district, Mainstreaming of Rural Development Innovation towards the establishment of community development plans, and the infrastructure, Pacific Labour Mobility Support Program to support Tonga's participation in Pacific Australia Labour Mobility (PALM). The grant assistance for Tonga Power Limited to facilitate the Popua generator house and NNUP Area 4 through the Tonga Renewable Energy Stabilization Package Project and ongoing assistance in the education sector through local and scholarships.

Australia also recently reconfirmed their long-term commitment to supporting Tonga during the special FEMM, hosted in Tonga during March this year. In this session, Australia and Tonga agreed to an AUD85 m (TOP125 m) budget support program over the next four years to support a stronger economy and national budget.

12.5.2 Government of New Zealand

Ministry of Foreign Affairs & Trade (MFAT)- Development Assistance to Tonga

An integrated approach: New Zealand pursues an integrated approach to engagement with Tonga that focuses on coherence across our diplomatic, trade and economic, climate change, environment, security, and development objectives to deliver sustainable progress in developing countries, and advance New Zealand's interests and values.

As such, New Zealand's development contribution (both policy and financial) is an integral pillar of New Zealand's foreign policy – it reflects the network of international relationships and commitments and is an expression of our values.

New Zealand cooperation in the Kingdom has 3 focus areas, as agreed in the partnership with Tonga signed in 2019: (A new Statement of Partnership will be developed in 2024 before the current Statement expires)

1. Support for governance institutions in Tonga, to promote stability and prosperity.

2. Support the Tongan public sector's ability to deliver high-quality services and better outcomes for Tongan communities.

3. Support to assist Tonga to build a strong and resilient economy.

Major Projects Include:

The Pacific Horticulture and Agriculture Market Access (PHAMA) Plus program is a joint Australian and New Zealand government initiative to enhance Pacific market access, quality and productivity improvements for local producers.

There is also ongoing support in the Health Sector through Pacific Pathology Training Center by strengthening the laboratory services and providing equipment to meet international quality standards, together with the ongoing overseas medical treatment scheme which aims to increase access to lifesaving medical and surgical treatment for Tongan nationals.

A five-year partnership agreement is in place with the Ministry of Civil Defense and Emergency Management (MCDEM) and Tonga's National Disaster Risk Management Office that will primarily provide a program of technical and advisory support to Pacific nations, including Tonga, to strengthen their domestic Disaster Risk Management (DRM) capabilities. Emergency Managers will be deployed to any requesting Pacific Island country impacted by natural disasters through the maintenance and strengthening of the Rapid Response Team (RRT).

New Zealand continues to provide ongoing scholarship opportunities in the Education sector together with continued assistance through the inclusive education program. This activity will work with national and regional teacher training institutions and other stakeholders to improve pre-service and in-service training for Tongan educators, while also providing resources to improve inclusive education practices in the classroom.

MFAT is also the co-financier with Australia across two multi-million-dollar investments, namely the construction of the New Parliament House to be mobilized in September this year, together with Tonga Hawaiki Project. New Zealand has also provided support for the reconstruction of the Nafanua Wharf Bridge in Eua that was destroyed post Hunga Tonga Hunga Ha'apai and resultant tsunami.

In addition, there is community investment through the Climate Change Trust Fund where vulnerable households are provided with improved water collection systems and latrines, noting water and sanitation are a key factor during recovery, post natural disaster. This is intended to strengthen local resilience in preparation for the next state of emergency.

12.5.3 The People's Republic of China

The People's Republic of China continues to support Government priorities for FY 2026 aligning to its TSDf Economic and Social Pillars, as follows:

Economic Institutions

- China Aid Agriculture Technical Cooperation is to further continue to assist with Vegetable farming and livestock production
- The three (3) long-line fishing vessels to assist with domestic fish production

Social Institutions

- Ongoing medical experts to increase capacity in the health sector, together with the continuing support Circular Economy Bio-gas Project to decrease Tonga's dependency on fossil fuels
- Sports Technical Assistance Project enables Tonga Sports team to have first hand experience, through an exchange program with Chinese coaches
- The upgrade of Mala'e Kula Royal Tombs will be undergoing into its completion phase
- Tonga Fire & Emergency Services are earmarked for PRC funding, to construct a new Headquarter and administration building.

12.5.4 Government of Japan

Japan and Tonga diplomatic cordial relations has grown stronger since 1970, which marks the warm friendship of the Imperial family of Japan and the Royal family. The Government of Japan Cooperation continues to support the Government of Tonga priorities through 1) Non-Project Grant Aid (NPGA), 2) Grant Assistance for Grass-root Human Security Project (GGP) 3) JICA Technical Cooperation. For FY 2026, there are ongoing projects, and the preparation of setting up large investments through General Grant Aid.

Socioeconomic

- The Preparatory Survey Mission for the Improvement of Sea Wall in Nuku'alofa has been dispatched towards its completion in March 2026.
- The Project for Pacific Co-Learning towards Resilient Health and System (2023-2028) with MOH targeting NCD started in June 2023 till 2028 for 5 years
- Training Program: Knowledge Co-creation Program (KCCP): accepted 17 courses for short-term program and some candidates for 2–3-year graduate program in Japan from Tonga.
- Young Leaders: accepted 2-course
- SDG Global Leaders Program: 5-success student (1xDoctor, 4x Master)
- JICA Volunteers Program: JICA Volunteers: continuously dispatched in various sectors such as Education, Health, Fisheries, Disaster Management and Environment.
- Tonga Rugby Union Training Facility
- Renovation of 'Ohonua Government Middle School
- New Classroom for Popua Government Middle School. The handover ceremony was completed February 2025.

Political

- Improvement of Fua'amotu International Airport currently processing for cabinet approval
- A Fire Truck for Ha'apai Airport
- JICA Individual Expert: The Debt Management Advisor to the Ministry of Finance completed his assignment in February 2025.

Infrastructure and Technology Inputs

- Solar Power Generation System for Tonga Broadcasting Commission (TBC) under the program to support economic and social development
- JICA Expert: The Advisor for Capacity Development of Road Planning, Road Asset Management and Car Inspection to the Ministry of Infrastructure has started and was dispatched in 2024 till 2027 for 3 years
- The Project for Improving Grid Operation under the Centralized Control Center with TPL commenced in 2024 till 2026 for 2 years.

- Co-finance with ADB on the Integrated Aged Care Project – in financing works, goods (furniture and equipment, supplies and meals) and staffing and program support for the main Age Care Center and Consulting Services.

Natural Resources and Environment Inputs

- J-PRISM3 (Pacific Region Waste Management Project Phase3 with MEIDECC, WAL targeting self-sustaining solid waste management and started in July 2023 till 2028 a 5-year project.
- The Project for strengthening Capacity to implement the Vision of Build Back Better will start in April 2025 based on the result of Preliminary Survey for the Formation of Disaster Recovery Projects against HTHH Volcanic Eruption and Tsunami Damage.
- The Project for Disaster Risk Reduction of Widespread Volcanic Hazards in Southwest Pacific Countries / SATREPS with Ministry of Land and Natural Resources started in April 2024 till 2029 for 5-years.
- ‘Utulau water supply, Ha’apai Koulo Evacuation Center/Community Hall, in Vava’u at Mataika, Tokomololo, Navutoka and Te’ekiu village water supply.
- Provision of equipment for Tonga Fire and Emergency services and the tender process of 2 Pumper trucks, 2 Water tankers and 3 emergency vehicles.
- Provision of equipment for MAFF currently in tender process of Agricultural Products processing equipment.
- Provision technical equipment for the Ministry of Revenue and Customs includes Security Patrol boats – schedule to arrive in FY2026, Raman spectrometer, Drug detection equipment; and
- Provision of equipment for water supply infrastructure development in remote islands for MPE for Tonga Water Board and for the Waste Authority Limited (WAL) already delivered Excavators, Trailers, Cargo trucks, Crane truck, Dump truck, Drainage pump. There are Generators left to be delivered.

12.5.5 European Union

The Pacific Multi-Country Indicative Program 2021-2027, EU and Tonga have jointly designed in 2021 a new action entitled “Support to the Energy sector in Tonga” which secured EU contribution of EUR 10 m through Budget Support modality to assist the Energy Sector, through the Joint Policy Budget Triggers, led by World Bank. The Energy Act and Energy Roadmap, for the next 5 years, will be its main focus.

12.5.6 Country of the Regional Organizations in the Pacific (CROP Agency)

The agreed outcomes of the 2025 Special Forum Economic Ministers Meeting hosted in Nuku’alofa, Tonga on the 26th of March 2025, has promoted platforms for regionalism:

- Pacific Roadmap for Economic Development (PRED), as a dynamic and adaptive instrument to address the prevailing uncertainties
- Climate Finance access and Mobilization Strategy (CFAMS), aimed to mobilize public and private financing opportunities, to support regional initiatives linked to the climate Change and disasters thematic area of the 2050 strategy.
- Pacific Resilience Facility (PRF) Treaty preparation for signing in September 2025. This is calling on Development Partners to assist its start-up of \$500m. This will send signals to the world that the Blue Pacific is taking charge of the impacts of climate change on its communities by developing proactive, innovative, and sustainable, access to finance solutions.

12.5.7 Other Donor Funds

There are additional grants received on an annual basis, including Korean Fund and India Grant. Donation from Saudi Arabia contributes to the establishment of the National Museum for Tonga.

13 ANNEX VI: SELECTED ECONOMIC INDICATORS

Tonga Selected Indicators, 2016/17 - 2023/24

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23p	2023/24f
	(Annual Percentage Change (%))							
Output and prices 1/								
Real GDP	3.2	0.7	-0.2	1.8	0.4	-2.3	2.1	1.4
Consumer prices (period average)	7.3	5.3	4.0	0.2	-0.1	6.8	12.6	8.0
Money and credit (end-period) 2/								
Broad money (M2)	13.7	7.6	4.3	1.2	26	10.7	-0.6	7.6
Domestic credit	4.5	-6.3	5.9	-15.9	-8.3	-3.3	-15.7	14.3
Private sector credit	23.4	6.9	7.6	1.2	0.9	-1.0	8.9	7.3
Balance of payments (OET Basis)								
	TOP in millions							
Exports, f.o.b.	23.8	19.9	20.3	18.2	12.5	12.7	9.8	8.4
<i>of which: Squash exports</i>	4.3	5.5	3.6	5.4	1.5	3.4	1.9	1.1
Imports, f.o.b.	356.4	408.8	444.4	416.6	461.9	496.2	623.9	675.2
Services (net)	26.9	32.1	32.2	18.8	-25.2	-79.3	-86.6	-39.4
Income (net)	-15.9	-7.9	8.9	5.6	22.0	30.5	30.0	12.1
Services and Income (net)	11.0	24.2	41.1	24.4	-3.2	-48.8	-56.5	-27.3
Transfers (net)	365.0	382.5	381.4	428.2	570.9	617.7	679.8	639.7
<i>of which: Private transfer receipts</i>	334.1	358.3	358.7	370.6	479.3	506.4	548.7	518.9
Current account balance	43.3	18.3	-1.8	54.3	118.3	85.4	9.2	-54.5
<i>(In percent of GDP)</i>	4.3%	1.7%	-0.2%	4.7%	10.0%	7.3%	0.8%	-4.5%
Overall balance	56.5	76.4	0.0	50.3	200.4	150.4	57.2	-8.4
Gross international reserves (end-period)								
In millions of pa'anga	407.9	468.7	484.3	543.8	715.2	871.2	921.4	924.3
In months of imports cover <i>(trade estimate)</i>	7.5	8.0	7.9	8.7	11.8	14.4	11.9	11.9
Total debt 3/								
Total debt/GDP (%)	44.3	44.1	42.4	42.6	42.9	42.1	40.5	36.3
Exchange rate (end -period)								
T\$ per US\$ (end-period)	2.19	2.27	2.28	2.29	2.25	2.35	2.38	2.37

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

Tonga Balance of Payment: 2016/17 - 2023/24

<i>(T\$m, unless otherwise indicated)</i>	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23p	2023/24f
Balance of Trade	-332.6	-388.9	-424.2	-398.5	-449.5	-483.6	-614.1	-666.8
Exports, f.o.b.	23.8	19.9	20.3	18.2	12.5	12.7	9.8	8.4
<i>of which: Squash exports</i>	4.3	5.5	3.6	5.4	1.2	3.4	1.9	1.0
Imports, f.o.b.	356.4	408.8	444.4	416.6	461.9	496.2	623.9	675.2
Services (net)	26.9	32.3	32.2	18.8	-25.2	-79.3	-86.6	-39.4
Receipts	169.6	199.0	204.3	184.0	88.3	98.5	185.4	245.4
<i>of which: Tourism receipts</i>	108.8	111.2	129.4	108.1	20.7	22.7	103	145.9
Payments	142.7	166.7	172.1	165.2	113.5	177.8	271.9	284.8
Income (net)	-16.04	-7.71	8.76	5.75	22.00	30.54	30.04	12.09
Receipts	17.7	24.0	25.8	25.9	44.2	47.9	54.5	55.9
Payments	33.8	31.7	17.1	20.2	22.2	17.4	24.5	43.8
Current Transfers (net)	365.0	382.6	381.4	428.2	570.9	617.7	679.8	639.7
Official transfers (net)	85.5	82.2	87.9	123.8	162.7	175.0	208.1	199.4
Private transfers (net)	279.6	300.3	293.5	304.4	408.2	442.8	471.7	440.3
Official transfer receipts	88.0	91.0	91.5	128.2	166.8	178.9	212.8	202.4
Official transfer payments	2.5	8.8	3.7	4.4	4.1	3.9	4.6	3.0
Private transfer receipts	334.0	358.4	359.3	370.6	479.3	506.4	548.7	518.9
Private transfer payments	54.4	58.1	65.8	66.2	71.1	63.7	77.0	78.6
Current account balance	32.2	21.0	-2.0	54.3	118.3	85.4	9.2	-54.5
(Percent of GDP)	3.2%	2.0%	-0.2%	4.7%	10.0%	7.3%	0.8%	-4.5%
Capital account balance	29.8	39.7	41.6	21.8	40.7	13.3	14.4	5.5
Official capital (net)	9.6	15.5	21.5	10.8	26.1	2.2	5.6	-1.4
Official capital inflows	9.7	16.4	22.0	11.2	26.2	3.0	5.6	4.3
Official capital outflows	0.1	0.9	0.5	0.4	0.1	0.9	0.0	5.7
Private capital (net)	20.1	24.2	20.1	11.0	14.7	11.1	8.8	6.9
Private capital inflows	22.8	27.4	22.0	11.7	15.4	11.9	9.6	7.2
Private capital outflows	2.7	3.2	1.9	0.7	0.7	0.8	0.8	0.3
Other items (net)	-81.8	-59.5	-56.1	-55.6	-55.6	-55.6	-55.6	-55.6
Overall balance	-19.8	1.2	-16.5	20.5	103.4	43.1	-32.1	-104.6
Memorandum items:	375.9	407.1	422.3	452.8	567.7	569.0	623.3	612.4
Service, income, and transfers (net)	928.3	1,019.7	1,027.5	1,088.6	1,152.3	1,269.6	1,587.5	1,632.2
Receipts	609.4	672.3	681.0	708.8	778.7	831.8	1,001.3	1,022.6
Payments	233.4	265.2	258.6	256.0	210.9	262.8	378.1	410.2
Gross official foreign reserves (TOP million)	407.9	468.7	484.3	543.8	715.2	871.2	921.4	924.3
Months of Import cover (trade estimate)	7.5	8.0	7.9	8.7	11.8	14.4	11.9	11.9

Source: National Reserve Bank of Tonga

Tonga Domestic Exports by HS Section, 2016/17 - 2023/24

HS Code SECTION ITEM	2016/17		2017/18		2018/19		2019/20		2020/21		2021/22		2022/23		2023/24	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Live Animals/Animal Products	10,385	29	5,456	23	8,907	31	14,140	34	9,605	26	7,311	21	6,773	22	2,783	13
Vegetable Products	18,999	52.4	16,335	68.0	16,872	58.6	20,286	49.4	22,307	61.1	22,901	67.1	15,479	50.4	10,118	46.2
Prepared Foodstuff; Beverages, Tobacco	276	0.8	384	1.6	209	0.7	161	0.4	559	1.5	399	1.2	73	0.2	294	1.3
Products of the Chemical Or Allied	208	0.6	153	0.6	415	1.4	172	0.4	410	1.1	61	0.2	41	0.1	10	0.0
Wood and Articles of Wood;	666	1.8	660	2.7	20	0.1	516	1.3	1,134	3.1	1,610	4.7	1,615	5.3	630	2.9
Miscellaneous Manufactured Articles	165	0.5	53	0.2	50	0.2	158	0.4	12	0.0	120	0.4	14	0.0	41	0.2
Works of Art, Collectors Pieces and Antiques	23	0.1	111	0.5	14	0.0	7	0.0	-	0.0	1	0.0	2	0.0	0	0.0
Other Exports	5,564	15.3	876	3.6	2,299	8.0	5,589	13.6	2,477	6.8	1,740	5.1	6,721	21.9	8,032	36.7
TOTAL	36,286	100	24,028	100	28,786	100	41,029	100	36,504	100	34,143	100	30,716	100	21,909	100

Source: Tonga Statistics Department

Tonga Domestic Exports by Institutional Sector, 2016/17 - 2023/24

INSTITUTIONAL SECTOR	2016/17		2017/18		2018/19		2019/20		2020/21		2021/22		2022/23		2023/24	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Private Sector	33,489	92.3	23174	96.4	27721	96.3	39821	97.1	36036	98.7	33590	98.4	28261	92.0	21773	99.4
Quasi-Government Sector	429	1.2	71	0.3	161	0.6	869	2.1	68	0.2	534	1.6	2411	7.9	135	0.6
TOTAL	36,286	100	24,028	100	28,786	100	41,029	100	36,504	100	34,143	100	30,716	100	21,909	100

Source: Tonga Statistics Department

Tonga Domestic Exports by Country of Destination, 2016/17 - 2023/24

COUNTRY	2016/17		2017/18		2018/19		2019/20		2020/21		2021/22		2022/23		2023/24	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
New Zealand	8,810	24.3	5,999	25.0	9,096	31.6	11,136	27.1	15,693	43.0	14,310	41.9	10,577	34.4	10,144	46.3
Australia	8,352	23.0	2,863	11.9	2,601	9.0	3,925	9.6	3,176	8.7	2,510	7.4	5,448	17.7	3,408	15.6
Fiji	657	1.8	44	0.2	76	0.3	273	0.7	292	0.8	276	0.8	1,108	3.6	1,470	6.7
Mainland USA	8,064	22.2	5,964	24.8	7,077	24.6	8,498	20.7	6,199	17.0	6,685	19.6	5,209	17.0	3,358	15.3
Samoa	327	0.9	179	0.7	442	1.5	1,034	2.5	175	0.5	189	0.6	87	0.3	294	1.3
Japan	4,616	12.7	1,799	7.5	1,691	5.9	2,529	6.2	522	1.4	809	2.4	2,370	7.7	133	0.6
Korea	2,061	5.7	5,667	23.6	2,747	9.5	3,488	8.5	1,370	3.8	3,080	9.0	1,473	4.8	200	0.9
Singapore	-	-	59	0.2	-	0.0	15	0.0	78	0.2	61	0.2	35	0.1	880	4.0
American Samoa	430	1.2	263	1.1	791	2.7	2,247	5.5	1,208	3.3	475	1.4	910	3.0	796	3.6
China / Hong Kong	12	0.0	7	0.0	17	0.1	80	0.2	2,106	5.8	2,520	7.4	101	0.3	21	0.1
All other Countries	2,957	8.1	1,184	4.9	4,248	14.8	7,804	19.0	5,685	15.6	3,228	9.5	3,400	11.1	1,205	5.5
TOTAL	36,286	100	24,028	100	28,786	100	41,029	100	36,504	100	34,143	100	30,716	100	21,909	100

Source: Tonga Statistics Department

Tonga Domestic Imports by Main HS Section, 2016/17- 2023/24

HS Code SECTION ITEM	2016/17		2017/18		2018/19		2019/20		2020/21		2021/22		2022/23		2023/24	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
1.Live Animals/Animal Products	53,023	10.4	60,542	11.3	55,638	9.9	52,617	9.7	77,014	13.3	72,291	13.2	71,663	10.9	67,537	10.2
2.Vegetable Products	15,142	3.0	17,630	3.3	18,513	3.3	17,283	3.2	24,285	4.2	19,043	3.5	21,299	3.2	22,711	3.4
3. Prepared Foodstuff; Beverages & Tobacco	81,580	16.0	74,511	14.0	61,244	10.9	66,737	12.3	91,749	15.8	77,764	14.2	98,795	15.0	115,545	17.5
4. Mineral Products	77,515	15.2	111,259	20.8	108,850	19.3	109,167	20.1	84,648	14.6	107,425	19.6	126,615	19.2	126,507	19.2
5. Products of the Chemical or Allied	18,599	3.7	20,956	3.9	22,299	4.0	21,863	4.0	29,860	5.1	30,849	5.6	33,168	5.0	28,806	4.4
6. Wood and Articles of Wood	20,128	4.0	20,361	3.8	20,584	3.7	18,445	3.4	23,852	4.1	14,303	2.6	22,621	3.4	18,247	2.8
7. Pulp of Wood and Other Fibrous Cellulosic Material	9,076	1.8	9,322	1.7	13,374	2.4	8,849	1.6	9,047	1.6	10,126	1.8	12,100	1.8	11,369	1.7
8. Base Metals & Articles of Base Metal	38,251	7.5	29,216	5.5	35,659	6.3	28,754	5.3	31,336	5.4	28,318	5.2	40,016	6.1	38,937	5.9
9. Machinery and Mechanical Appliance	76,997	15.1	78,780	14.8	106,734	18.9	85,352	15.7	95,751	16.5	78,120	14.2	85,717	13.0	87,718	13.3
10. Miscellaneous Manufactured Articles	15,204	3.0	17,151	3.2	15,068	2.7	11,709	2.2	14,393	2.5	13,962	2.5	19,494	3.0	20,629	3.1
11. Vehicle, Aircraft, Vessel & Associated, Transport Equipment	46,989	9.2	46,906	8.8	56,303	10.0	81,286	15.0	47,846	8.2	44,810	8.2	62,441	9.5	64,232	9.7
12. Works of Art, Collectors Pieces	6	-	4	-	16	-	7	0.0	50	0.0	21	0.0	246	0.0	244	0.0
13. Other Imports	56,017	11.0	47,229	8.8	49,495	8.8	40,557	7.5	51,033	8.8	51,619	9.4	64,516	9.8	57,797	8.8
TOTAL	508,527	100.0	533,868	100.0	563,777	100.0	542,626	100.0	580,864	100.0	548,651	100.0	658,692	100.0	660,279	100.0

Source: Tonga Statistics Department

Tonga Domestic Imports by Institutional Sector, 2016/17- 2023/24

INSTITUTIONAL SECTOR	2016/17		2017/18		2018/19		2019/20		2020/21		2021/22		2022/23		2023/24	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Private Sector	437,008	85.9	469,903	88.0	487,059	86.4	429,947	79.7	528,858	91.0	502,539	91.6	591,528	89.8	606,386	91.8
Government Sector	31,787	6.3	24,399	4.6	16,856	3.0	80,240	15.3	29,383	5.1	16,125	2.9	44,640	6.8	36,438	5.5
Quasi-Government Sector	39,732	7.8	39,566	7.4	59,862	10.6	32,439	5.0	22,623	3.9	29,988	5.5	22,525	3.4	17,455	2.6
TOTAL	508,527	100	533,868	100	563,777	100	542,626	100	580,864	100	548,652	100	658,692	100	660,279	100

Source: Tonga Statistics Department

Tonga Domestic Imports by Country of Origin, 2016/17 - 2023/24

COUNTRY	2016/17		2017/18		2018/19		2019/20		2020/21		2021/22		2022/23		2023/24	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
New Zealand	155,900	30.7	156,775	29.4	151,889	26.9	155,149	28.6	174,916	30.1	146,285	26.7	162,348	24.6	192,155	29.1
Australia	38,716	7.6	35,923	6.7	40,127	7.1	36,641	6.8	56,015	9.6	42,298	7.7	53,356	8.1	43,825	6.6
USA	52,201	10.3	49,116	9.2	65,288	11.6	70,082	12.9	57,034	9.8	59,708	10.9	60,746	9.2	51,436	7.8
China	40,242	7.9	51,932	9.7	49,599	8.8	43,771	8.1	56,390	9.7	73,134	13.3	87,628	13.3	76,345	11.6
Indonesia	8,185	1.6	8,929	1.7	8,063	1.4	8,198	1.5	13,742	2.4	11,639	2.1	12,692	1.9	25,636	3.9
Fiji	40,126	7.9	44,481	8.3	40,227	7.1	41,521	7.7	49,591	8.5	42,381	7.7	55,452	8.4	53,910	8.2
Japan	52,818	10.4	38,824	7.3	55,417	9.8	42,640	7.9	34,902	6.0	28,871	5.3	46,171	7.0	37,757	5.7
Singapore	77,459	15.2	82,307	15.4	98,667	17.5	101,557	18.7	71,713	12.3	95,561	17.4	116,589	17.7	111,409	16.9
Others	42,880	8.4	65,581	12.3	54,500	9.7	43,067	7.9	66,561	11.5	48,774	8.9	63,710	9.7	67,807	10.3
TOTAL	508,527	100.0	533,868	100.0	563,777	100.0	542,626	100.0	580,864	100.0	548,651	100.0	658,692	100.0	660,279	100.0

Source: Tonga Statistics Department.

14 ANNEX VII: FURTHER ANALYSIS ON GOVERNMENT EXPENDITURE

14.1 Analysis of Overtime Expenditure

A-Table 29: Overtime Expenditure vs. Budget.

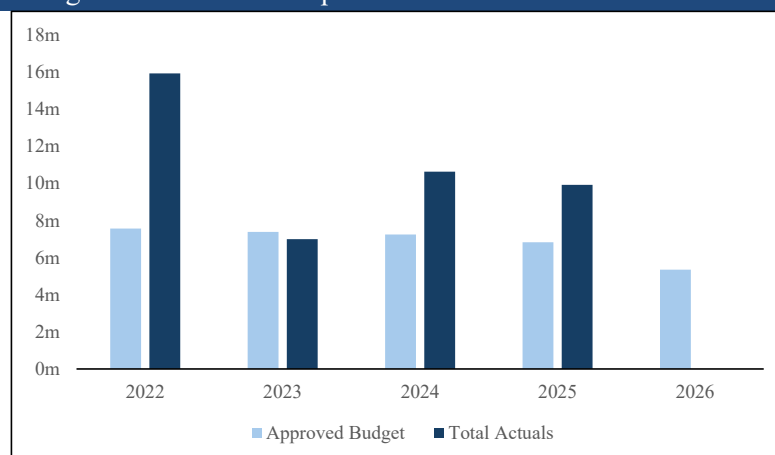
Financial Year	Approved Budget	Total Actuals	Budget Execution (%)
FY 2022	\$ 7,561,500	\$ 15,920,268.02	211
FY 2023	\$ 7,377,500	\$ 6,988,674.93	95
FY 2024	\$ 7,244,600	\$ 10,624,888.25	147
FY 2025	\$ 6,829,600	\$ 9,911,698.46	145
FY 2026	\$ 5,399,800	\$ -	N/A

Source: Ministry of Finance.

due to the extra hours required from health staff. However, in the following years it has consistently exceeded the approved budget level.

The government has allocated on average around \$7.3m in overtime since FY 2022. Since then, Government MDA's have exceeded spending under their overtime allocation in each year except for FY 2023. Overtime expenditure peaked during the Covid-19 pandemic primarily

A-Figure 22: Overtime Expenditure Profile.



Source: Ministry of Finance.

After a post-covid decline in FY 2023, overtime costs have slowly picked up again in FY 2024 and FY 2025, attributed primarily to the higher number of staff leaving public service, particularly in the Ministry of Health, which results in higher overtime claims to resolve staff shortages especially in staff nurses. Equally, the hosting of the Pacific Health Minister's Meeting (PHMM) led to spending of \$5.9m against an original budget of \$2.9m in FY 2024. In FY 2025, the hosting of the 53rd Pacific Island Forum Leader's Meeting (PIFLM) and the Pacific Island Chief of Police Meeting (PICP) were the main contributing factors to the increased overtime claims.

The Ministry of Health continues to be the largest driver of overtime costs across the FY 2022 – FY 2025 period, averaging about \$5m+ with actual spending of \$8.9m+ in FY 2022. Other high spending MDAs with major allocations in FY 2024 & FY 2025 include MORC, Health, MAFF (Quarantine airport services), MOI, LA and Finance. It is estimated that FY 2025 spending on overtime will exceed the original budget allocation by the end of June 2025.

In FY 2026, the Government forecasts a reduction in overtime expenditure, with the allocation falling to \$5.4m. This demonstrates the Government's commitment to implementing expenditure control measures.

14.2 Analysis of Vacancies

A-Table 30: Vacancies vs. Budget.

Financial Year	Approved Budget	Number of vacancies
FY 2022	\$224,238	496
FY 2023	\$10,812,668	597
FY 2024	\$11,815,920	759
FY 2025	\$7,705,912	861

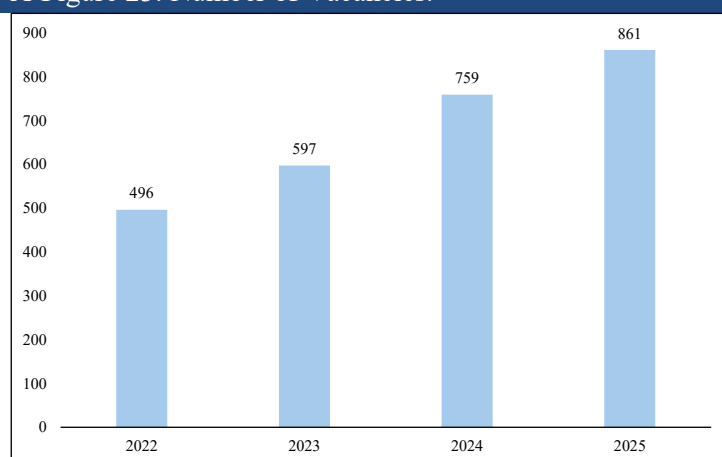
Source: Ministry of Finance.

The average allocation for vacancies has been around \$7.6m since FY 2022. The number of vacancies increases each year due to increasing exits from government work, with higher compensation available for

technical positions on donor funded projects, while migration is also a factor, particularly in the MET, MOH, Police, HMAF.

All vacancies were reduced to 50.0 percent in FY 2024 and 40.0 percent in FY 2025 as a result of increases in salary savings from unfilled vacancies. However, the number of vacancies continue to increase annually. The reducing of vacancies allocation to 40 percent of minimum point of band level will continue into FY 2026.

A-Figure 23: Number of Vacancies.



Source: Ministry of Finance.

14.3 Analysis of Wages

The table & graph shows the total budget allocation and total execution in the past 3 years, the estimated outturn in the current financial year and the budget allocation for the new financial year. The average spending on wages is about \$8.7m. The allocation for each year has gradually increased, with contributing factors being the execution rate as a result of COLA and recruiting of more daily paid labourers.

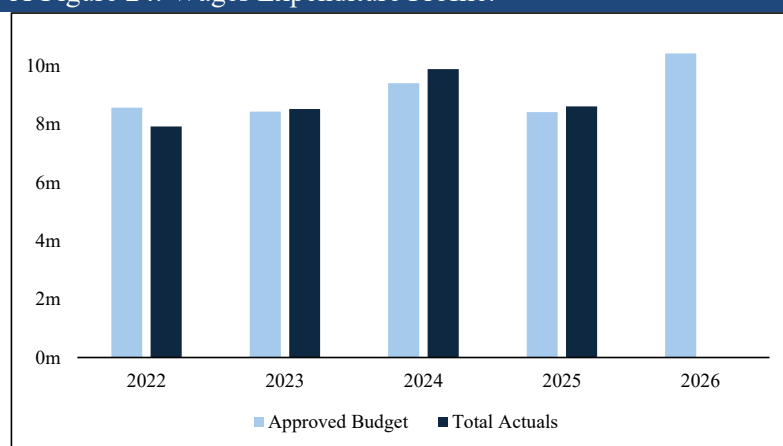
A-Table 31: Wages vs. Budget.

Financial Year	Approved Budget	Total Actuals	Budget Execution (%)
FY 2022	\$8,572,900	\$7,926,985.31	92
FY 2023	\$8,432,900	\$8,525,774.05	101
FY 2024	\$9,408,500	\$9,895,691.75	105
FY 2025	\$8,419,000	\$8,613,537.46	102
FY 2026	\$10,325,600	-	N/A

Source: Ministry of Finance.

The government overspent by \$0.5m or 5.0 percent in FY 2023-2024 and is estimated to be overspend again in the current financial year by \$0.2m or 2.0 percent of the total allocation. The Ministry of Infrastructure remains the ministry with the highest execution rate due to the daily paid labourers required for Road Maintenance, which amount to \$1.9m on average. It is followed by the Ministry of Health, which requires daily-paid doctors, nurses, and hospital services, amounting to an allocation of \$1.7m. The Ministry of Foreign Affairs is third, with wages including Overseas Mission minimum wages amounting to \$1.7m. The government anticipates an increase in the allocation for FY 2026.

A-Figure 24: Wages Expenditure Profile.



Source: Ministry of Finance.

14.4 Analysis of Contract Labour

The government has allocated on average around \$5.5m in contract labour since FY 2022. Of these allocations, all Government MDA's have under-spent their contract labour allocation except for two or three ministries that spend more than their approved budget each FY.

A-Table 32: Contract Labour vs. Budget.

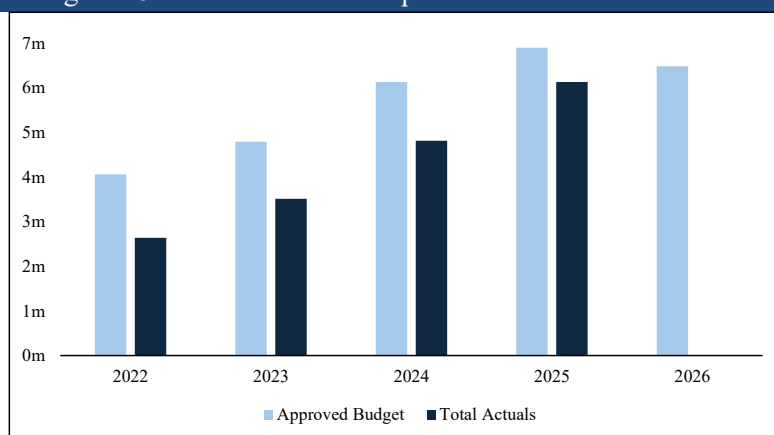
Financial Year	Approved Budget	Total Actuals	Budget Execution (%)
FY 2022	\$4,061,000	\$2,635,117.79	65
FY 2023	\$4,790,300	\$3,513,758.59	73
FY 2024	\$6,127,600	\$4,810,269.85	79
FY 2025	\$6,892,800	\$6,125,244.00	89
FY 2026	\$7,131,000	\$-	N/A

Source: Ministry of Finance.

Relative to other ministries, the Ministry of Education and Training utilised the largest share of contract labours over the FY 2022 – FY 2023 period in order to cater for unestablished teaching staff, curriculum writers, professional development writers and other administration positions. The Ministry of Infrastructure then utilised the highest share from FY 2024 – FY 2026. The

increase in spending in the FY 2024 allocation is primarily due to COLA. The underspending MDAs were mainly Finance, MPE, MOH, MOJ, MAFF, Police, and MET.

A-Figure 25: Contract Labour Expenditure Profile.



Source: Ministry of Finance.

14.5 Analysis of Overseas Travel

The table and graph below show the trend of spending on overseas. The average allocation for overseas travel from FY 2022 to FY 2025 is \$3.4m a year, however the actual average spend amounts to \$6.1m, with this being a 79.4 percent increase above the average allocation.

A-Table 33: Overseas Travel vs. Budget.

Financial Year	Approved Budget	Total Actuals	Budget Execution (%)
FY 2022	\$2,058,800	\$1,422,175.30	69
FY 2023	\$2,282,900	\$7,557,470.67	331
FY 2024	\$4,712,500	\$7,929,151.54	168
FY 2025	\$4,705,700	\$7,515,500.00	160
FY 2026	\$4,009,100	\$-	N/A

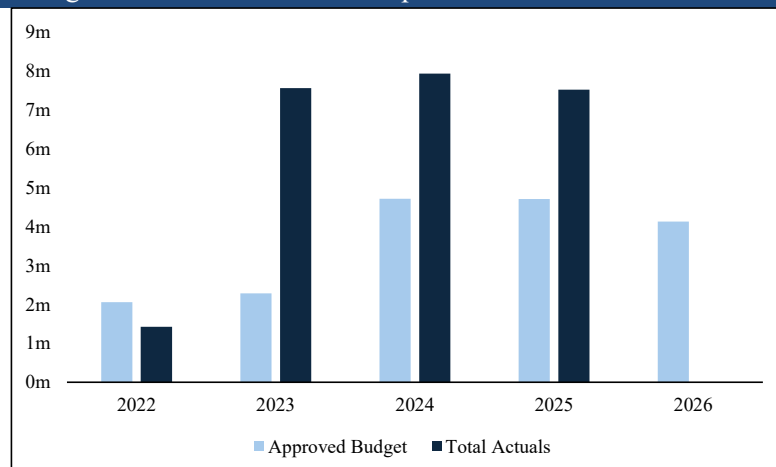
Source: Ministry of Finance.

From FY 2023 to FY 2025, actual expenditure on overseas travel consistently exceeded its budgeted amount by at least 30 percent. In FY 2022 overseas travel spend was only 69 percent of its original estimate. However, spend has gradually increased as restrictions related to the Covid-19 pandemic

have been lifted.

The highest spend was in FY 2024, where spend exceeded its original budget by 68.0percent or \$3.2m. Here, the ministries with the highest spend were the Ombudsman Office, which spent more than 2000.0 percent of its original budget, followed by the Ministry of Tourism, with more than 644.0 percent of its original estimates. These ministries were followed by the Ministry of Internal Affairs and then the Prime Minister's Office.

A-Figure 26: Overseas Travel Expenditure Profile.



Source: Ministry of Finance.

The allocation for FY 2026 will see overseas travel spend decline by 14.8 percent or \$0.7m. This mainly due to the Government seeking to manage expenditure on this line item. The Government will instead look to increase the use of technology, for example connecting through virtual and video calls, to maintain involvement in the international meetings and seminars.

14.6 Analysis of Hospitality Expenditure

The average allocation for hospitality over the past 4 years was \$1.2m per year, however the average actual expenditure was \$1.3m. Throughout the FY 2022 – FY 2026 period, the year with the highest spend was FY 2023, where spend exceeded the allocated budget by 52.0 percent or \$0.4m.

A-Table 34: Hospitality vs. Budget.

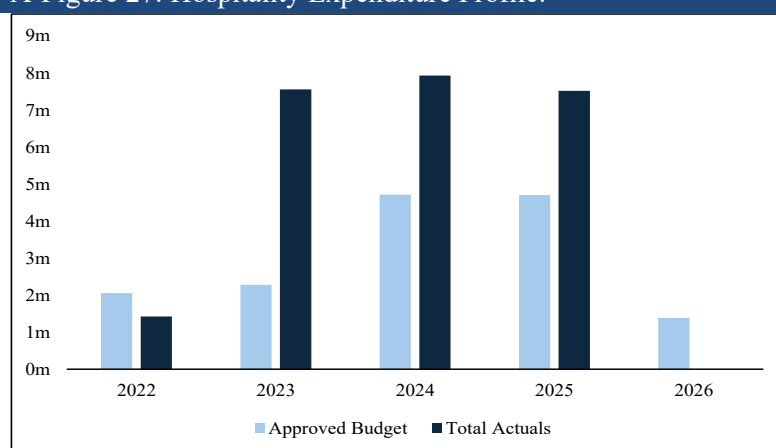
Financial Year	Approved Budget	Total Actuals	Budget Execution
FY 2022	\$2,058,800	\$1,422,175.30	69
FY 2023	\$2,282,900	\$7,557,470.67	331
FY 2024	\$4,712,500	\$7,929,151.54	168
FY 2025	\$4,705,700	\$7,515,500.00	160
FY 2026	\$4,009,100	\$-	N/A

Source: Ministry of Finance.

In FY 2023, the ministry that spent the highest was His Majesty's Armed Forces, which exceeded the allocated budget by more than 500 percent. This was due to Tonga hosting the South Pacific Defense Minister's Meeting, which was held in November 2022. The second largest was the

Prime Minister's Office, resulting from the hosting of foreign dignitaries visiting the country, followed by the Ministry of Tourism.

A-Figure 27: Hospitality Expenditure Profile.



Source: Ministry of Finance.

FY 2024 was the year with the highest allocated amount for hospitality. In this year, the actual expenditure only exceeded the budget by 17 percent or \$0.3m. This high spending was led by the Prime Minister's Office, which exceeded its allocation by 55.0 percent, followed by HMAF, where the overspend resulted from development partners visiting from overseas. The

outturn for the current financial year is estimated to be below the allocated amount. This is in line with the government trying to prudently manage government expenses.

14.7 Analysis of Catering and Refreshments Expenditure

Over the past four years, including the current financial year, the average approved budget for catering and refreshments was \$1.6m, while actual spending averaged \$1.9m. The Ministry of Trade and Economic Development recorded the highest average spending at \$0.2m, accounting for 10–11 percent of total catering expenses, primarily due to frequent engagement with the private sector and other stakeholders. The Ministry of Tourism followed, also averaging \$0.2m, representing 8–10 percent of total spending, largely driven by event hosting.

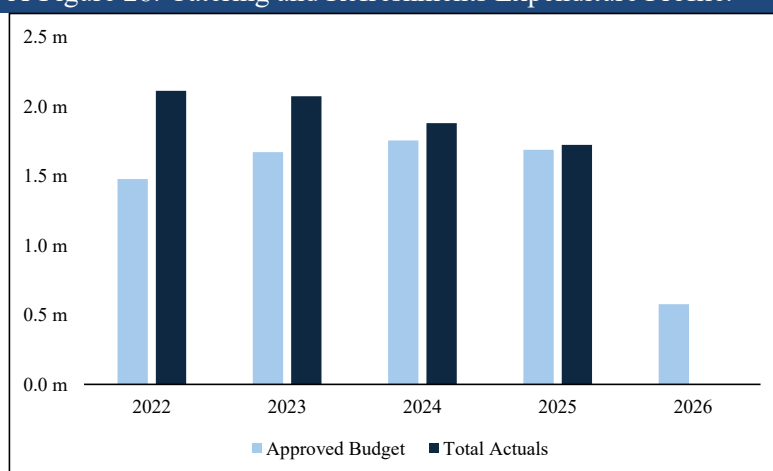
A-Table 35: Catering and Refreshments vs. Budget.

Financial Year	Approved Budget	Total Actuals	Budget Execution (%)
FY 2022	\$1,479,200	\$2,114,485.90	143
FY 2023	\$1,673,000	\$2,075,395.87	124
FY 2024	\$1,756,400	\$1,881,942.95	107
FY 2025	\$1,689,900	\$1,725,800.00	102
FY 2026	\$552,500	\$-	N/A

Source: Ministry of Finance.

The government aims to significantly reduce spending next financial year as part of efforts to scrutinize expenditures and allocate public funds more effectively. This includes a 67.0 percent decrease—or \$1.1m—compared to the current financial year's budget for FY2026.

A-Figure 28: Catering and Refreshments Expenditure Profile.



Source: Ministry of Finance.

14.8 Analysis of Equipment Expenditure

The table & graph show the total budget allocation over the past 3 years, the estimated outturn in the current financial year and the budget allocation for the new financial year. All equipment's under the asset category, including new office equipment, other plant & equipment, technical equipment, military equipment, farming equipment, and hospital equipment, are included in this analysis.

A-Table 36: Equipment vs. Budget.

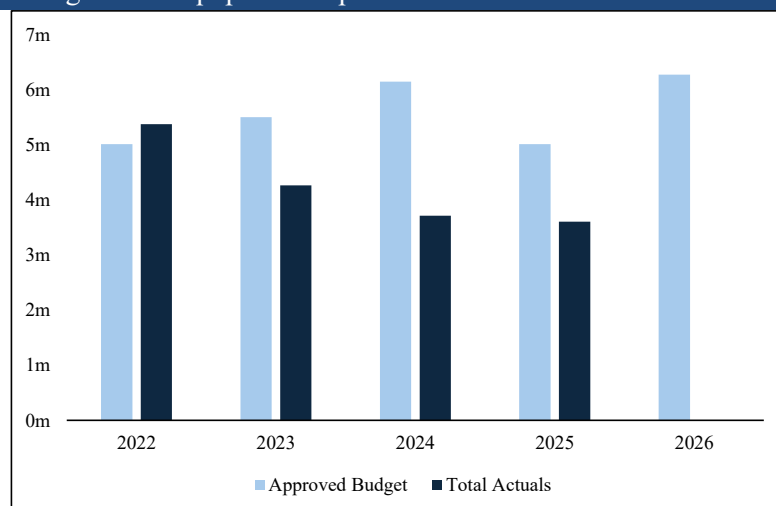
Financial Year	Approved Budget	Total Actuals	Budget Execution
FY 2022	\$5,012,400	\$5,375,461.03	107
FY 2023	\$5,501,000	\$4,261,690.77	77
FY 2024	\$6,144,200	\$3,712,366.74	60
FY 2025	\$5,011,000	\$3,605,097.33	72
FY 2026	\$5,051,600	-	N/A

Source: Ministry of Finance.

The average allocation for equipment has been around \$5.5m over the FY 2022 – FY 2024 period, whereas the average spending has been around \$4.5m. The budget allocation has been reduced for the current financial year and will remain at this level for FY 2026. to better manage the

assets of line ministries.

The Government has streamlined operational expenditure accordingly, aiming for line ministries to better manage their assets and update their asset register regularly. It is anticipated that expenditure in the equipment category will be lower than the allocated budget in the current financial year by \$1.4m or 28.0 percent.

A-Figure 29: Equipment Expenditure Profile.

Source: Ministry of Finance.

14.9 Analysis of New Computers Expenditure

The Government's allocated budget for new computers has averaged around \$1.5m since FY 2022. Over this time, the Government has spent around 90 percent to more than its allocation each year. The Government has also steadily reduced budget allocations for new computers since FY2023, with the aim of better monitoring and managing of assets in the government ministries across all asset items under the Asset category. The major purposes for expenditure in the new computers category have been for the replacement of old and broken laptops/computers, and to accommodate new staff entering the workforce.

A-Table 37: New Computers vs. Budget.

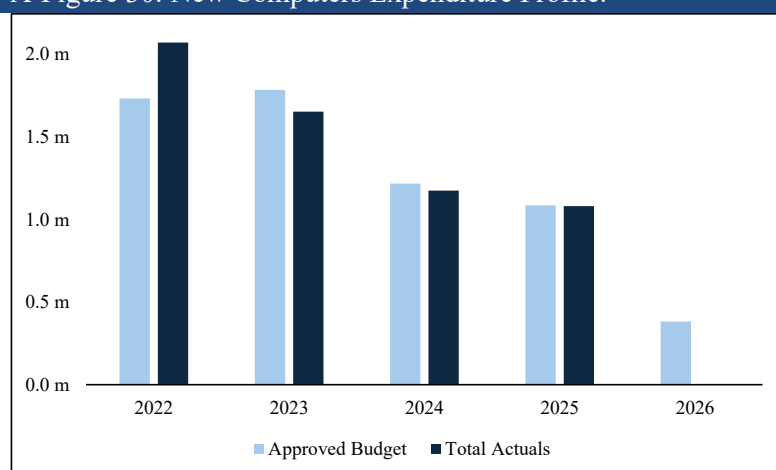
Financial Year	Approved Budget	Total Actuals	Budget Execution (%)
FY 2022	\$1,731,500	\$2,069,629.87	120
FY 2023	\$1,782,300	\$1,652,163.25	93
FY 2024	\$1,215,900	\$1,173,831.09	97
FY 2025	\$1,084,600	\$1,079,850.91	100
FY 2026	\$418,000	\$-	N/A

Source: Ministry of Finance.

Currently, expenditure control measures are in place to ensure the budget allocation is utilized accordingly to achieve the expected outputs and outcomes. The government has streamlined operational expenses, including efforts to strengthen asset management control measures.

As part of this procedure, the Government has carried out a comprehensive stocktake of all of government's assets.

It is anticipated that spending under the new computers category will exceed the allocated budget in FY 2025. However, by enforcing asset control measures, expenditure on new computers will fall to less than 50.0 percent of its normal allocation for the FY 2026 forecast.

A-Figure 30: New Computers Expenditure Profile.

Source: Ministry of Finance.

14.10 Analysis of Expenditure on New Vehicles

Over the FY2022 – FY 2025 period, the average approved budget for the procurement of new vehicles was \$0.1m, whereas the actual expenditure averaged \$1.2m. During this period, the budget allocation for new vehicle purchases has consistently been centralized under the Ministry of Finance. This centralization was implemented as a policy measure to regulate government vehicle acquisitions and continues to be in effect.

A-Table 38: New Vehicles Expenditure Profile.

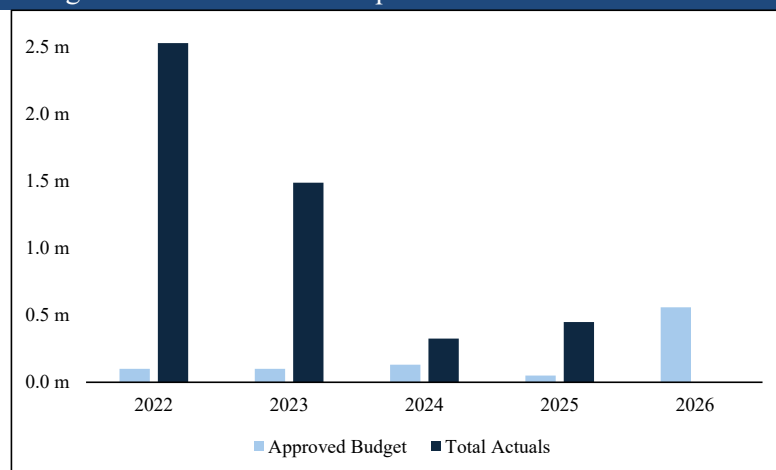
Financial Year	Approved Budget	Total Actuals	Budget Execution (%)
FY 2022	\$100,000	\$2,531,791.90	2532
FY 2023	\$100,000	\$1,489,442.04	1489
FY 2024	\$130,000	\$325,600.00	250
FY 2025	\$50,000	\$450,000.00	900
FY 2026	\$410,000	\$-	N/A

Source: Ministry of Finance.

The accompanying graph illustrates a declining execution rate, with a notable increase in the current financial year attributable to the anticipated procurement of four vehicles and ten motorcycles. The motorcycles are intended to support the Ministry of Agriculture, Forestry and

Fisheries (MAFF) in facilitating travel for plantation visits and survey activities. The significant rise projected for the next financial year reflects funding for vehicles already earmarked for specific ministries, which could not be accommodated within the current financial year's budget.

A-Figure 31: New Vehicles Expenditure Profile.



Source: Ministry of Finance.

ACRONYMS

ADB	Asian Development Bank	DAC	Development Assistance Committee
ADF	Australian Defence Force	DFAT	Government of Australia
AFP	Australian Federal Police	DFS	Digital Financial Services
AGO	Attorney General's Office	DGSF	Digital Government Strategic Framework
AIFFP	Australia Infrastructure Financing Facility Program	DMO	Debt Management Office
AIP	Aid Investment Plan	DOD	Disbursed Outstanding Debt
AML/CFT	Anti-Money Laundering/Counter Financing Terrorist	DPP	Director of Public Prosecution
AO	Authorized Operator	DRM	Disaster Risk Management
APG	Asia Pacific Group on Money Laundering	DRR	Disaster Risk Reduction
ASC	Annual School Census	DSA	Debt Sustainability Assessment
ASP	Adaptive Social Protection	DSSI	Debt Service Suspensive Initiative
ATM	Average Term to Maturity	EAP	East Asia and Pacific
AUD	Australian Dollar	ECE	Early Childhood Education
BBB	Build Back Better	EDF	European Development Fund
BESS	Battering Energy Storage System	EDPO	European Development Policy Operation
BHN	Basic Human Needs	EE	Energy Efficiency
BOP	Balance of Payments	ESSP	Economic and Social Stimulus Package
BSP	Bank South Pacific	EU	European Union
Cat DDO	Catastrophe Deferred Drawdown	EXIM	Export-Import Bank of China
CBD	Central Business Unit	EMA	Emergency Management Act
CCT	Conditional Cash Transfer	ESRS	Electronic Sales Register System
CCTF	Climate Change Trust Fund	EMIS	Education Management Information System
CDs	Communicable Diseases	ESA	Exchange Settlement Account
CDF	Contingency Disaster Financing	ESCAP	Economic and Social Commission for Asia and the Pacific
CEO	Chief Executive Officer	FAO	Food and Agriculture Organization
CERC	Contingent Emergency Response Component	FATF	Financial Action Taskforce
CNY	Chinese Yuan	FEC	Foreign Exchange Control
COLA	Cost of Living Adjustment	FED	Foreign Exchange Dealers
COVID-19	Novel Coronavirus Disease 2019	FEMM	Forum of Economic Ministers Meeting
CPI	Consumer Price Index	FFD	Financial Framework Division
CSOs	Civil Society Organizations.	FMIS	Financial Management Information System
CSU	Central Service Unit	MoF	Ministry of Fisheries
CT	Consumption Taxes	FIU	Financial Intelligence Unit
CTCN	Climate Technology Center and Network	FSL	Food Security and Livelihood

FY	Financial Year (July – June)	JICA	Japan International Cooperation Agency
FX	Foreign Exchange	JPRM	Joint Policy Reform Matrix
GAP	Good Agricultural Practices		
GCF	Green Climate Fund	JNAP	Joint National Action Plan on climate change adaption and disaster risk management
GDL	Government Development Loan	JPY	Japanese Yen
GDP	Gross Domestic Product	KMT	Kau Mai Tonga
GFS	Government Finance Statistics	KPIs	Key Performance Indicators
GGF	Government General Fund	KYC	Know Your Customer
GGP	Grassroots Grant Project	LA	Legislative Assembly
GLRF	Gita Loan Recovery Fund	LT-LEDS	Long-term Low Emission Development Strategy
GMS	Government Middle School	MAFF	Ministry of Agriculture, Food and Forestry
GPA	Government Priority Agenda 2018-2021	MDAs	Ministries, Departments and Agencies
GPE	Global Partnership of Education	MDF	Market Development Facility
GPI	Gender Parity Index	MDS	Medium Term Debt Strategy
GOT	Government of Tonga	MEIDECC	Ministry of Meteorology, Energy Information Disaster Management Environment and Climate Change
GRADE	Global Rapid Post-Disaster Damage Estimation	MET	Ministry of Education and Training
HeIP	Hama e-learning Platform	MHEWS	Multi Hazard Early Warning System
HIES	Household Income Expenditure Survey	MFA	Ministry of Foreign Affair
HMAF	His Majesty's Armed Forces	MFES	Ministry of Fire and Emergency Services
HTHH	Hunga Tonga Hunga Ha'apai	MIA	Ministry of Internal Affair
IACP	Integrated Age Care Project	MLNR	Ministry of Lands & Natural Resources
ICT	Information Communication Technology	MLW	Micro-loans for Women
IDA	World Bank International Development Association	MOF	Ministry of Finance
IDAs	Initial Damage Assessment	MOH	Ministry of Health
IDES	Inclusive Digital Economy Scored	MOI	Ministry of Infrastructure
IELTS	International English Language Testing	MOJP	Ministry of Justice and Prisons
IFAD	International Fund for Agriculture Development	MOP	Ministry of Police
IMF	International Monetary Fund	MORC	Ministry of Revenue and Customs
IURSP	Integrated Urban Resilient Sector Project	MORDI	Mainstreaming of rural development innovation
		MOT	Ministry of Tourism
IFMIS	Integrated Financial Management Information System	MCO	Multi-Country Office
ILO	International Labour Organization	MPE	Ministry of Public Enterprises

MPS	Monetary Policy Statement	OHI	Open Heart International
MSDP	Migration Sustainable Development Policy	OET	Overseas Exchange Transaction
MSME	Micro Small and Medium Enterprises	OIREP	Outer Island Renewable Energy Projects
MTDS	Medium Term Debt Strategy	OISES	Outer Islands Solar Electrification Society
MTED	Ministry Trade and Economic Development	Pac REF	Pacific Regional Education Framework
NAP	National Action Plan	PCRAFI	Pacific Catastrophe Risk Assessment and Financing Initiative
NAPID	National Action Plan on Illicit Drugs	PCRIC	Pacific Catastrophic Risk Insurance Company
NBFIs	Non-Bank Financial Institutions	PEHS	Package of Essential Health Services
NCDs	Non-Communicable Diseases	PFM	Public Financial Management
NDC	Nationally Determined Contribution	PIC	Pacific Island Countries
NDICI	Neighbourhood Development and International Cooperation Instrument	PIFS	Pacific Islands Forum Secretariat
NDIP	National Disability Inclusive Policy	PIRI	Pacific Islands Regional Initiatives
NDRMO	National Disaster Risk Management Office	PDRFP	Pacific Disaster Risk Financing Programme
NEER	Nominal Effective Exchange Rate	PEFA	Public Expenditure and Financial Accountability
NEF	Nationally Emergency Fund	PEs	Public Enterprises
NEMO	National Emergency Management Office	PMO	Prime Minister's Office
NEWS	Nation Wide Early Warning System	PMS	Performance Management System
NGOs	Non-Government Organizations	PMU	Project Management Unit
NIIP	National Infrastructure Investment Plan	POS	Point of Sale
NNUP	Nuku'alofa Network Upgrade Project	PPE	Personal Protective Equipment
NPGA	Non-Project Grant Aid	PPP	Public-Private Partnership
NPL	Non-performing Loans	PRC	The People's Republic of China
NRBT	National Reserve Bank of Tonga	PREP	Pacific Resilience Program
NSCC	National Security Committee of Cabinet	PSC	Public Service Commission
NSPP	National Social Protection Policy	PSIDS	Pacific Small Island Development States
NPUP	Nukualofa Ports Upgrade Project	PSOP	Pathway to Sustainable Oceans Project
NPV	Net Present Value	PTCN	Pacific Transnational Crime Network
NZD	New Zealand Dollar	RCF	Rapid Credit Facility
NZ TCU	New Zealand Transnational Organized Crime Unit	RCP	Regional Comprehensive Economic Partnership
ODA	Overseas Development Assistance	RDFD	Resilience Development and Financing Division
OECD	Organization for Economic Cooperation and Development		

REER	Effective Exchange Rate	TCRTP	Tonga Climate Resilient Transport Project Tropical
RIE	Regional Implementing Entities	TDB	Tonga Development Bank
RID	Risk Informed Development	TDGSP	Tonga Digital Government Support Project
RMF	Road Maintenance Fund	TEEMP	Tonga Energy Efficiency Master Plan
RMS	Revenue Management System	TREP	Tonga Renewable Energy Project
ROA	Return of Asset	TERM	Tonga Energy Road Map
ROE	Return of Equity	TESA	Tonga Education Support Activity
RSE	Recognized Seasonal Employment	TESP	Tonga Education Sector Plan
RWCR	Risk- Weighted Capital Ratio	TESR	Tonga E- Commerce Strategy Roadmap
S.A.M.O.A	SIDS Accelerated Modalities of Action	TF	Terrorist Financing
SDG	Sustainable Development Goals	TFPP	Tonga Fish Pathway Project
SDPFA	Sustainable Development Policy Financing	TFSP	Tonga Fisheries Sector Plan
SDR	Special Drawing Rights	THPF	Tonga Health Promotion Foundation
SET	Skills and Employment and Training	THS	Tonga High School
SMA	Special Management Areas	TSSF	Tonga Student Support Fund
SNA	System of National Accounts	THSSC	Tonga High School Sports Complex
SPA	Specific Priority Areas	THSSP	Tonga Health Sector Support Program
SPAM	Strengthening Protected Area Management	TIOE	Tonga Institute of Education
SPBD	South Pacific Business Development	TJSSP	Tonga Justice Sector Support Program
SPC	South Pacific Community Secretariat of the Pacific Regional and Environment Programme	TLMP	Tonga Labour Mobility Policy
SPREP		TMCL	Tonga Market Corporation Limited
SRD	Statutory Reserve Deposit 8	TNAC	Tonga National Agriculture Census
SWSE	Social Welfare Scheme for the Elderly	TNFC	Tonga National Fisheries Census
TAL	Tonga Airport Limited	TREP	Tonga Renewable Energy Project
TAPP	Tonga Australia Policing Partnership	TRIP	Tonga Rural Innovation Project
TASP	Tonga Agriculture Sector Plan	TSD	Tonga Statistics Department
TBC	Tonga Broadcasting Commission	TSDF II	Tonga Strategic Development Framework II
TBS	Tonga Bureau of Statistics	TSRSP	Tonga Safe & Resilient School Project
TC	Tropical Cyclone	TTA	Tonga Tourism Association

TC Gita	Tropical Cyclone Gita	TTPF	Tonga Trade Policy Framework
TCC	Tonga Communication Corporation	TTSR	Tonga Tourism Sector Roadmap
TCES	Tonga Circular Economy System	TVET	Technical and Vocational Education and Training
TWB	Tonga Water Board		
TCIRP	Tropical Cyclone Ian Recovery Projects		
UN	United Nations		
UNDP	United Nations Development Programme		
UNEP	United Nations Environmental		
UNSDCF	United Nations Sustainable Cooperation Framework		
UNESCO	United Nations Educational, Scientific and Cultural Organization		
UNFPA	United Nations Fund for Population Activities		
UNICEF	United Nations Children Education Fund		
USA	United States of America		
USD	American Dollar		
USP	University of the South Pacific		
VNR	Voluntary National Review		
WASH	Sanitation Hygiene		
WB	The World Bank		
WBG	World Bank Group		
WCCC	Women and Children Crisis Center		
WEGET	Women Empowerment Gender Equality		
WHO	World Health Organization		