



Government of Tonga

BUDGET STATEMENT

2018/19

RECOVERY WITH GREATER RESILIENCE



MINISTRY OF AND FINANCE AND NATIONAL PLANNING
30th of June 2018

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ACRONYMS

AGO	Attorney General's Office	DWCP	Decent Work Country Program
AIMS	Aid Information Management System	DWS	Disability Welfare Scheme
AML/CFT	Anti-Money Laundering/Counter Financing Terrorist	EAP	East Asia and Pacific countries
APG	Asia Pacific Group on Money Laundering	ECE	Early Childhood Education
CAPI	Computer Assistance Personal Interviewing	EDPF	Eastern District Packing Facility
CAT	Convention Against Torture	EEZ	Exclusive Economic Zones
CDs	Communicable Diseases	EMDEs	Emerging Market and Developing Economies
CDCC	Cabinet Development Coordination Committee	ERB	Employment Relations Bill
CEO	Chief Executive Officer	EXIM	Export Import Bank of China
CITIES	Convention for International Trades of Endangered Species	e-waste	electronic Waste
CMA	ICAO Continuous Monitoring Approach	FAD	Fishing Aggregating Device
CNY	Chinese Yuan	FAO	Food and Agriculture Organization
COFOG	Classification of Function of Government	FED	Foreign Exchange Dealers
CPIA	Country Policy and Institutional Assessment	FDI	Foreign Direct Investment
CPR	Commission of Public Relations	FFA	Forum Fishing Agency
CREC	Contingency Emergency Response Component	FIU	Financial Intelligence Unit
CRPD	Convention on the Right of Persons with Disability	FSL	Food Security and Livelihood
CRSP	Climate Resilience Sector Projects	GCF	Green Climate Fund
CSOs	Civil Society Organisations	GDL	Government Development Loan
CT	Consumption Taxes	GDP	Gross Domestic Product
DAC	Development Assistance Committee	GFC	Global Financial Crisis
DOD	Disbursed Outstanding Debt	GFS	Government Finance Statistics
DPs	Development Partners	GGP	Grassroots Grant Project
DRM	Disaster Risk Management	GNI	Gross National Income
DSA	Debt sustainability Analysis	GPA	Government Priority Agenda 2018-2021
DSPD	Division of Social Protection and Disability	HDI	Human Development Index

HIES	Household Income Expenditure Survey	MPI	Multi-dimensional Poverty Index
HMAF	His Majesty's Armed Forces	MPPF	Ministry of Police, Prisons and Fire
IATA	International Air Traffic Association	MPS	Monetary Policy Statement
ICAO	International Civil Aviation Organization	MORC	Ministry of Revenue and Customs
ICCPED	International Convention for the Protection of All Persons from Enforced Disappearance	MTBF	Medium Term Budget Framework
ICCR	Interfaith Centre on Corporate Responsibility	MTOs	Money Transfer Operators
ICESCR	International Covenant on Economic, Social, & Cultural Right	NBFIs	Non-Bank Financial Institutions
ICT	Information and Communication Technology	NBSAP	National Biodiversity Strategy and Action Plan
IDA	World Bank International Development Association	NCDs	Non-Communicable Diseases
IFAD	International Fund for Agriculture Development	MOJ	Ministry of Justice
IHDI	Inequality adjusted HDI	MIA	Ministry of Internal Affairs
IMF	International Monetary Fund	MINOFA	Ministry of Foreign Affairs
JNAP	Joint National Action Plan on climate change adaption and disaster risk management	MOIT	Ministry of Infrastructure and Tourism
JPRM	Joint Policy Reform Matrix	MOF	Ministry of Fisheries
KPIs	Key Performance Indicators	MOH	Ministry of Health
LA	Legislative Assembly	NEER	Nominal Effective Exchange Rate
M&E	Monitoring and Evaluation	NEMO	National Emergency Management Office
MAFF	Ministry of Agriculture, Food and Forestry	NGOs	Non-Government Organizations
MCCTIL	Ministry of Commerce, Consumer, Trade, Innovation and Labour	NIIP	National Infrastructure Investment Plan
MDAs	Ministries, Departments and Agencies	NLF	National Labour Framework
MDGs	Millennium Development Goals	NPL	Non-performing Loans
MEIDECC	Ministry of Meteorology, Environment, Information, Disaster Management, Energy, Climate Change and Communications	NPV	Net Present Value
MET	Ministry of Education and Training	NRBT	National Reserve Bank of Tonga
MLNR	Ministry of Land and Natural Resources	PAT	Port Authority Limited
MPE	Ministry of Public Enterprises	OECD	Organization for Economic Cooperation and Development

OET	Overseas Exchange Transaction	PSC	Public Service Commission
OPEC	Organization of Petroleum Exporting Countries	PSS	Pacific Island Small States
OIREP	Outer Island renewable Energy Projects	R2R	Ridge to Reef
OPSC	Office of Public Service Commission	REER	Real Effective Exchange Rate
PACER	Public Access to Court Electronic Records	RSE	Recognized Seasonal Employers' Program
PAMD	Projects and Aid Management Division of the Ministry of Finance & Planning	R&D	Research and Development
PAIP	Pacific Aviation Investment Project	SDGs	Sustainable Development Goals
PAS	Poverty Alleviation Scheme	SDR	Special Drawing Rights
PASO	Pacific Aviation Safety Office	SIDS	Small Island Developing States
PAYE	Pay As You Earn	SMA	Special Management Areas
PBS	Poverty Benefit Scheme	SMS	Civil Aviation Safety Management System
PCRAFI	Pacific Catastrophe Risk Assessment and Financing Initiative	SNA	System of National Accounts
PEs	Public Enterprises	SOP	Standard Operating Procedure
PEARL	Pacific Early Age Readiness for Learning	SPLGP	Social Protection & Labor Global Practice
PHAMA	Pacific Horticultural and Agricultural Market Access	STAT	Standardized Test for Achievement for Tonga
PFM	Public Financial Management	STATS	Department of Statistics
PG 2019	Pacific Games 2019	STEP	STEP-wise approach to Surveillance
PLSLP	Pacific Literacy School Leaderships Programs	SWOT	Strengths, Weakness, Opportunities and Threats
PILNA	Pacific Islands Literacy and Numeracy Assessment	SWP	Seasonal Worker's program
PMO	Prime Minister's Office	SWSE	Social Welfare Scheme for the Elderly
PMS	Performance Management System	TAIP	Tonga Aviation Investment Project
PMU	Project Management Unit	TAL	Tonga Airport Limited
POPs	Persistent Organic Pollutants	TAMA	Tonga Assets Management Authority
PREP	Pacific Resilience Program	TASP	Tonga Agriculture Sector Plan
PRRP	Pacific Risk Resilience Program	TBS	Tonga Bureau of Statistics

TCC	Tonga Communication Corporation	TSDF	Tonga Strategic Development Framework (2011-2014=I= first;
TC Gita	Tropical Cyclone Gita	TSDF II	2015-2025=II = second)
TCIRP	Tropical Cyclone Ian Recovery Projects	TSGP	Tonga School Grant Program
TDB	Tonga Development Bank	TVET	Technical and Vocational, Education & Training
THPF	Tonga Health Promotion Foundation	TVNUP	Tonga Village Network Upgrade Project
THSSP	Tonga Health Sector Support Program	UN	United Nations
TIOE	Tonga Institute of Education	UNICEF	United Nations Children Education Fund
TNDIP	Tonga National Policy on Disability Inclusiveness	USP	University of the South Pacific
TNYC	Tonga National Youth Congress	UNFPA	United Nations Fund For Population Activities
TPL	Tonga Power Limited	WB	The World Bank
TRIP	Tonga Rural Innovation Project	WCCC	Women and Children Crisis Center
TSCP	Transport Sector Consolidated Project	WHO	World Health Organization

Note:

Differences in numbers could be due to rounding

FOREWORD

With great optimism, the 2018/19 budget is built on **Psalm 46:1** God is our refuge and strength, an ever – present help in trouble, **7** The Lord almighty is with us, the God of Jacob is our fortress. This budget serves to further reinforce Government's efforts to achieve the goals and aspirations of the SDG-focused on the TSDF II and that of the National Vision of ***"A more progressive Tonga, supporting a quality of life for all"***. The strategic thrust for the 2018/19 budget is to promote growth, enhance economic diversification, and create job opportunities, which are necessary to improve the standard of living of Tongans. The urgent need to redirect resources and synergies towards efforts at recovery and rebuilding; aftermath of the Category 4 Tropical Cyclone (TC) Gita of 12 February 2018 that left unprecedented level of economy-wide destruction in Tonga implies refocussing of the 2018/19 budget along the line of recovery and resilient-growth. Tonga's strategic pursuit of broad-based infrastructure development, upscaling its agriculture & fisheries sector, the tourism industry and other key sectors, are against the backdrop of strengthening growth in the global and regional economy, particularly in advanced economies, which are the main sources of our export earnings, remittances inflow and other development-oriented strategic alliances.

Furthermore, the 2018/19 budget, the first for the current government, constitutes, a launch-pad for implementing the newly crafted Government's Priority Agenda (GPA) for the period 2018 – 2021. This sets out the key development milestone over the medium term. Along the broader lines of the TSDF II, the 2018/19 budget sets out government strategic interventions for Social and Economic Development during the year and in the medium term. It also focuses on the overall 2030 Agenda of a sustainable and people-centred development where no one is left behind, to ensure that resources are allocated towards achieving the priorities. As highlighted above, a response to the recovery, rebuild and future resilience in Tonga's economy, in the wake of TC Gita, imposes on Government in 2018/19 the urgency to redirect policies, strategies and investment priorities in the areas of climate adaptability and green economy.

In light of TC Gita impact on the economy, concerted efforts from foreign governments, NGOs and development partners—in cash, kind and pledges—to provide immediate response and recovery remedies to ensure safety of Tongan people have been quite encouraging and well appreciated. All these will not only to assist with the recovery of individual households and businesses, but also help to stimulate economic activities at all levels and across all sectors in the immediate and medium term. The outlook for the economy is for a pick-up in momentum from the second half of 2018, supported by TC Gita related recovery and rebuild construction projects. In this regard, Real GDP growth is projected to recover moderately at around 3.9 percent in 2018/19. This trajectory will continue into the outer years, supported by expected recovery in all of the three main sectors of the economy—particularly agriculture, construction and tourism.

Government priority areas for the 2018/19 budget build on strategies developed for the Medium Term Budget Framework (MTBF) 2018/19 - 2020/21, main highlights during 2017/18 as comprehensively reviewed, taking into account the resource envelope consistent with fiscal prudence. As noted, TC Gita, a first of its kind to make landfall in Tonga in modern times, struck the Islands of Tongatapu and 'Eua on the night of Monday 12 and morning of Tuesday 13 February 2018. TC Gita left devastating impacts, assessed at an economic value of about \$356 million, or about 30 percent of Tonga's gross domestic product (GDP) in nominal terms. This no doubt implies that during 2018/19 and the near term, Government efforts will be largely aimed at recovery and rebuilding of the nation's economic and social sectors. Hence, **Recovery with Greater Resilience** for the longer term now takes centre stage in both the current planning horizon — current government's GPA has been tailored towards a climate resilient and Disaster Recovery — and the 2018/19 budget. It is in this vein that the theme for 2018/19 budget — **Recovery with Greater Resilience** — is chosen to reflect Tonga's urgent recovery and rebuild efforts as well as the medium to longer term need of addressing issues of disaster risk

management and adaptation, to ensure a resilient - growth and sustainable development of all sectors of the economy.

Budget Theme: “Recovery with Greater Resilience”: Budget 2018/19

At last, government together with the encouragement of His Majesty’s statement to the nation in the wake of TC Gita urged Tongans to come in unity with cooperative spirit as shown by our Mate Ma’a Tonga team to rebuild Tonga, yes a recovery of the nation with greater resilience at all levels.

God Bless Tonga



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EXECUTIVE SUMMARY

The focus of 2018/19 budget is on recovery from the impact of TC Gita. This recovery has been weaved into the budget so to guide everyone at all levels to stay focus on the budget theme,

“Recovery with greater Resilience”.

Recovery is a priority in the newly crafted Government Priority Agenda for the period 2018-2021.

The country enjoyed a vigorous economic growth of around 3 percent in 2017/18 after reviving from severe drought that affected the agricultural sector in 2014/15. Ha'apai reconstruction as well as other constructions projects led the economic growth. Remittances continued to pour into the country which strengthened consumers demand while banking fortified businesses. Inflation was hopping around the Reserve Bank reference target of 5 percent. Tourism was flourishing as more tourists arrive on our shores. Economic growth picked up.

Economic Growth						
	2015/16p	2016/17f	2017/18f	2018/19f	2019/20f	2020/21f
Real Sector		<i>Annual % change</i>				
Real GDP	3.4	3.0	1.1	3.9	3.1	2.8
Nominal GDP	5.1	7.0	3.7	5.2	5.0	4.7
GDP deflator	1.7	3.9	2.6	1.8	1.9	1.3
CPI inflation (annual average)	-0.6	7.3	2.0	1.7	1.7	0.9
		<i>T\$ million</i>				
Nominal GDP	889.5	952.2	987.7	1,038.7	1,090.6	1,141.8

Source: Tonga STATS and Ministry of Finance

However, TC Gita passed over Tonga and 'Eua islands group around 11pm on Monday 12th February 2018. As a result, significant damages were left behind both in the two islands with much of the destruction in agriculture, housing—private homes, offices and hotels/restaurants—electricity and transport & communication. The total economic value of the destruction have been estimated at approximately \$356 million, or equivalent to 30 percent of GDP in nominal terms. The effects of the cyclone vary from sector to sector, but its end results is a reduction in the overall economic activity and later the estimated growth rate of the economy for 2017/18. The revised growth rate for 2017/18 is 1.1, below the 3.0 percent earlier estimated, and far below the average of 3.4 percent of the previous three years.

Government has geared most resources towards recovery on the edge of a tight fiscal space to meet its fiscal objectives. The operating surplus are growing and debt is on a downward trajectory with forecast showing external debt falling below 50 percent target. However, Debt service will increase in 2018/19 by \$14 million from \$29 million in 2017/18 created extra pressure on the fiscal sector.

A ranges of policies are in place to help drive businesses and privates towards recovery so that all Tongans contribute to return the country to stronger economic growth.

1 INTRODUCTION

The budget theme for 2018/19 again is “**Recovery with Greater Resilience**”, predicated essentially on the ongoing multi-faced efforts at recovery, rebuild for future resilience in Tonga's economy. This serves to reemphasize that in 2018/19 and the medium term, all hands will be on deck towards Tonga's urgent recovery and rebuild efforts to address the issues of disaster risk management and adaptation, to ensure a resilient-growth and sustainable development in all sectors of the economy.

The budget statement has six sections as follows.

Section 2 provides a broad overview of global, regional highlights and domestic economic and social outcomes and outlook for Tonga. This includes main drivers and key assumption for the GDP forecasting and government's debt position.

Section 3 sets out the 2018/19 budget according to the TSDF II Pillars and the Government Priority Agenda 2018-2021.

Section 4 discusses the 2017/18 Budget Strategies highlights and priorities for 2018/19.

Section 5 discusses the funding sources for 2018/19 budget both from the recurrent and development sources. The GFS classification of the 2018/19 budget also covered in this section.

Section 6 provides the conclusion; and

Section 7 provides the Appendices of supporting tables for the budget

2 MACROECONOMIC AND SOCIAL DEVELOPMENT OUTCOMES AND OUTLOOK

2.1 Global and Regional Highlights

The global trade rebound that started in mid-2016, and whose momentum is expected to be carried forward for another two years, continues to spur global growth. Estimated by the IMF at 3.8 percent, global growth in 2017 was the fastest since 2011 and it is expected to strengthen even further to 3.9 percent in 2018 and 2019. Global growth in the last two years have in large part been driven by: (i) investment recovery in advanced economies; (ii) continuing expansion in emerging Asia; (iii) a notable upswing in emerging Europe; and (iv) recovery in commodity exporters on the back of firmer commodity prices. On the same note, concomitant growth, far above potential level that will support global push is expected in advanced economies.

The expectations of continuing favourable global financial conditions, coupled with improved confidence, and the fast dissipating impact of earlier commodity price collapse will maintain the accelerating demand for commodities to the extent of boosting further growth in economies with large export base. Furthermore, the revision in growth projections for the United States, based on expected investment response to recent tax policy reform will provide additional boost to global growth. Expansionary fiscal policy, aimed at modernising ageing infrastructure is also expected to drive the US economy above full employment. In addition, favourable demand spill-over of the US tax reform and expanded government spending will lead to higher growth rates in Canada, Mexico and other advanced, emerging markets and developing economies group. Growth rate in emerging and developing Asia, the region that drives half of world growth, is expected to remain at 6.5 percent over 2018 to 2019 as in 2017. The outlook for China is for a moderate growth, softening from the estimated 6.9 percent in 2017 to 6.6 and 6.4 percent respectively in 2018 and 2019, based on expected stronger external demand.

The global price of crude oil is on the rise, a momentum that started in 2016. The average prices—U.K. Brent, Dubai Fateh and West Texas Intermediate—per barrel for global crude oil in U.S. dollars is anticipated to remain higher in the medium-term at around US\$70. The increase in global fuel prices will drive growth in oil exporting countries of the Middle East and shore up regional growth in the emerging and developing countries of the Middle East and North Africa and sub-Saharan Africa. Moreover, dampening global demand for crude and gas implies that emerging and developing economies of the Middle East, North Africa and sub-Saharan Africa will have to further strengthen their drive for greater economic diversification.

The global economy is expected to maintain the near-term momentum. Challenges loom no doubt, and risks remain skewed to the downside in the medium-term. One notable threat to growth is a tightening of global financing terms from the current easy levels, either in the near-term or later. Higher inflation pressure in the U.S. as a result of the new tax reform, together with faster Fed policy rate tightening than anticipated pose further risk to global financial market. The tightening of global financial conditions would have implications for prices of global asset and capital flows, leaving economies with high gross debt refinancing needs and unhedged dollar liabilities particularly exposed to financial distress.

Again on the downside, the response of U.S. investment to tax policy changes could be more modest than envisaged, with consequences on the strength of external demand for the main U.S. trading partners. Over the medium-term, there could be a potential build-up of vulnerabilities if financial conditions remain easy, possible adoption of inward-looking policies and macroeconomic factors pose notable downside risks.

There is no doubt that the current burst-up between the US, China and other advanced economies as a result of threats and counter-threats of tariff imposition on steel, aluminium and other products may trigger a trade war that in the medium term could disrupt global growth prospects. As the WTO and global observers adopt the wait-and-see attitude for now, there is the fervent hope that concerned parties will soon get to the negotiable

table such that an all-out global trade war, with potentially devastating consequences on 2018 and 2019 global growth will be averted.

The recent escalating conflict in Syria which involve multiple regional and global powers, will have broad consequences. Higher oil prices may be among the outcomes.

Regional Output in the East Asia and Pacific (EAP) remains generally on track, benefitting from the recovery in global trade. Output is estimated to have expanded by 5.9 percent (higher than earlier estimate of 5.7) in 2017 and projected at 6.3 percent in 2018, driven by strong consumption and investment. Capital inflows to the region continued to be sizable in the first half of 2017, and financial conditions are expected to remain supportive. China is expected to slow moderately to 6.5 percent in 2018, after growing faster in 2017 as the economy continues to rebalance away from investment and towards domestic consumption. This is dealing with policies that focus more on slowing credit expansion and improving the quality of growth. Growth in developing EAP, excluding China, is forecasted to remain stable in 2018 at 5.4 percent, reflecting continued robust domestic and external demand. Modest growth at an average of 2-3 percent is projected for the advanced economies of the region, such as Australia, New Zealand, Korea, Singapore, etc. between 2016 and 2018.

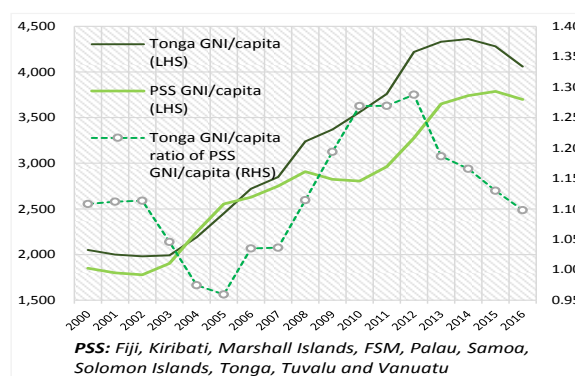
Even with favourable outlook, there remains a reverse moderating growth prospects across the region in the medium term. Countries will need to find ways of raising their long-term potential growth by: (i) improving public spending and infrastructure provision; (ii) deepening trade integration and improving trade facilitation; (iii) implementing reforms to enhance competitiveness; and (iv) building human capital.

Growth estimates for the Pacific island countries and other small states is on the other hand estimated to have expanded from 3.1 percent in 2016 to 3.7 percent in 2017 and projected to expand further to 4.4 percent in 2018, predicated largely on retained growth outlook for Papua New Guinea, which is the sub-region's largest economy. Outlook for the smaller Pacific economies are mixed; adjusted downward for North Pacific and small island economies, but upgraded for South Pacific (Pacific Monitor, December 2017). It is of note too that estimated growth for 2018 could be further revised downward, based on expected impact of Tropical Cyclone Gita that made land-fall in a number of Pacific Island countries including New Zealand in February 2018. In these regards, economic resilience is particularly important in the Pacific Island Countries, and can be helped by building up sovereign wealth funds as well as improving access to temporary migration schemes.

2.2 Growth in Tonga compared to the Region

In 2016, the GNI per capita for Tonga and for the Pacific Island Small States (PSS) slowed down by 5 percent and 2 percent respectively. This led to a 2.8 percent drop in the ratio of Tonga's GNI per capita to PSS's GNI per capita. Over the past decade to 2016, the average growth for Tonga's GNI per capita was 4.2 percent,

Pacific Island Small States (PSS) and Tonga GNI/Capita (Atlas Method), current USD, 2000-2016



Source: World Bank (data in calendar year)

lower than the average growth for the past decade to 2015 (5.8 percent) but higher than the average for the PSS's GNI per capita of 3.6 percent for decade to 2016.

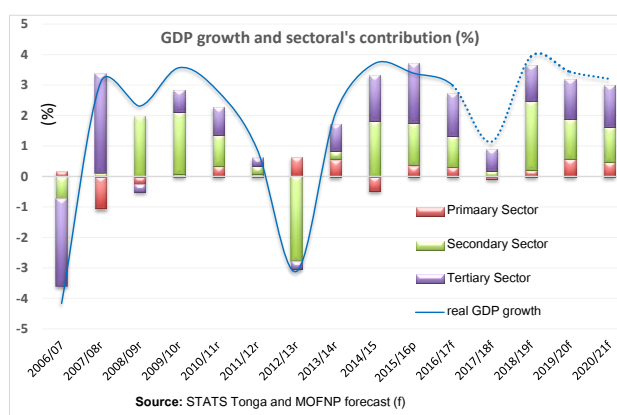
As alluded to earlier, both GNI per capita for Tonga and for the PSS decreased in 2016, reflecting the fall in the command over commodities of the citizens of Tonga as well as in the PSS. The need for measures that will spur growth in Tonga and the PSS for enhanced GNI per capita in the longer term imply that strengthened efforts and policy direction are required. These may include further expansion of different workers' scheme, with quality and commitment to work and moral dimension of workers at centre stage. There is also the need to promote talent of young ones, especially in sports—rugby and others—and to further strengthen the relationships with Tongan diasporas. For this reason, a sound monitoring and evaluating of participants and conditions of both schemes for further expansion to other fields and continued increase in number of workers and promote of talented young ones from the Pacific Islands.

2.3 Macroeconomic and Fiscal (GFS basis) Performance & Outlook for Tonga

Tonga's 2017/18 Economic Performance

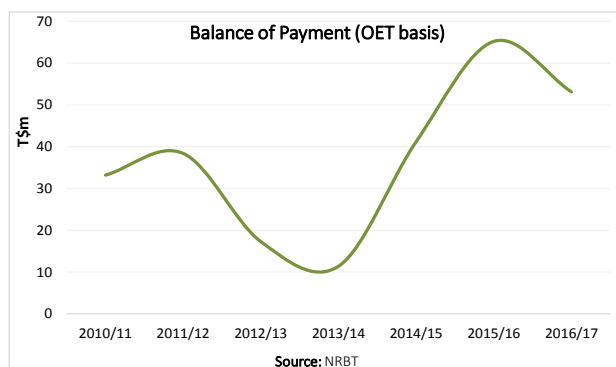
The political tension that surrounded the dissolution of Parliament in August 2017 and associated dampened socio-economic and governmental activities from the second half of 2017 translated into reduced growth prospects for 2018. It also led to significant moderation of government project implementation during the financial year 2017/18. The slowdown in economic activities during 2017/18 was further worsened by the negative impacts of TC Gita. As a result, the revised growth rate for 2017/18 is 1.1 percent, below the 3.0 percent earlier estimated, and far below the average of 3.4 percent of the previous three years. The TC Gita Rapid Assessment indicates that the cyclone largely affected agriculture & fisheries (primary sector), housing & electricity (secondary sector), and communication and businesses (tertiary sector).

Economic activities are expected to pick up in the second half of 2018, supported by TC Gita related recovery and rebuild construction projects. In this regard, real GDP growth is projected to recover moderately at around 3.9 percent in 2018/19 (*refer GDP graph*). This trajectory will continue into the outer years, but in a decreasing rate, supported by expected recovery in all of the three main sectors of the economy—particularly agriculture, construction and tourism. The ramping-up of infrastructure projects, strong remittances and strong private credit growth will spur activities in the services and other sectors of the economy. Inflation is anticipated to remain above the NRBT's reference target of 5 percent. On the other hand, a higher unemployment rate of 16.4 percent reported in the 2016 Population Census for Tonga, which needs attention and efforts from all levels of the society to address this matter. This unemployment rate cannot be compared to previous census due to differences in the definition used. This is later detailed below in Section 2.6.



Economic Outlook for 2018/19 and Beyond

The near term outlook for the Tongan economy is favourable. A number of high impact construction projects are in line to commence in 2018/19 whilst negotiations for many others are at advanced stages. The TC Gita rebuild and recovery plan and processes also imply that construction activities will gain momentum in coming months. Additionally, the newly formulated government priority agenda (GPA) 2018-2021 will attract infrastructure investment in many areas of the economy; an added impetus for recovery for the economy and resilient growth. The favourable outlook for our trading partners indicated a more healthy flow of funds from Tongan diasporas to help offset imbalances in our imports and maintain BOP at a higher level (*refer BOP chart*). Also the continuous support from development partners continue to uphold economic activities on our shores. Consequently, foreign reserves continue to remain at a very high level.



The high expectation for the continued rise in credit growth remain an advantage to the economic growth. Over the year ended February 2018, the banking sector continues to maintain a very healthy liquidity and strong capital position while profitable at the same time. Deposits continue to increase with total assets of the banking system largely due to a significant growth in total loans, cash held at banks and an increase in items in transits. The uncertainty in recovery process posed a threat to the fiscal balance. The overall fiscal balance has been negative over the last two years and likely to remain so for another year or two, depending on the financing of the recovery.

2.3.1 Main drivers of growth in 2017/18

Remittances

Remittances continue to play significant role in the Tongan economy. At around 30 percent of nominal GDP (2016/17), it serves as an important source of households' disposable income thereby smoothening welfare even for the unemployed. Remittances also continue to play a part in Tonga's observed low poverty level over the years; access to families' basic needs and demand for other goods and services are guaranteed by inflows from Tongan diasporas. As available data from the NRBT reveals the level of remittances inflows increased by 10.9 percent to \$284.2 million in 2016/17 and 12-months to February 2018 has reached \$332.5 million with a monthly average of \$27.7 million. Other than favourable exchange rates or macroeconomic conditions in the remitting countries, anecdotal evidence suggest that the expanding level of remittances to Tonga are associated with higher level of needs to support families' welfare. Contributions to periodic family reunion, churches and community activities, schools celebrations, two new Foreign Exchange Dealers (FED) and other events are additional pull factors for remittances to Tonga.

Quarterly data indicates that over the years, remittances are normally at the highest peak in December quarters due to Christmas and New Year holiday festivities, family and community reunions and other end-of-year activities. Remittances for the month of December 2017 alone was the highest ever recorded on monthly receipts recorded \$33.6 million receipts. Lower levels of inflow are on the other hand recorded in the March quarters; that is, post festive seasons. The total amount of remittance inflows for the first six months of 2017/18 was \$162 million, an increase of 11.5 percent over the \$145.3 million recorded in the same period of the

previous year. Projection for the second half of 2017/18 is for a higher level of remittances than the usual trend due to expected inflow of funds from Tongan diasporas to support recovery from the TC Gita impact. The expected increase in the level of remittances for 2017/18 may likely shore up household disposable income and enhance the demand for goods and services in most sectors of the economy over the same period.

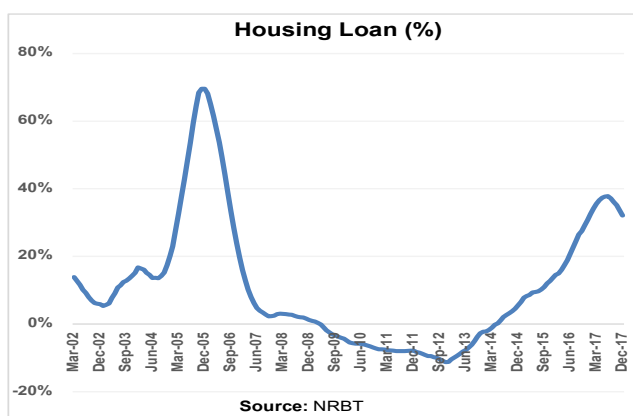
Around 88 percent of remittances came through FED declined from 89 percent recorded in 2016/17. Remittances from the United States (US) remained the dominant currency (33.5 percent) followed by Australia (AUD) with 32.7 percent share. New Zealand is the third country with 28 percent share also recorded the biggest increase in receipts sent in the last twelve months up to February by \$11.9 million. The increase seasonal employees participated in the scheme and the favourable exchange rate movements contributed.

Tourism

Providing additional boost for the economy is the growing level of tourist arrivals. Available statistics indicate that tourist arrival increased by 16.4 percent in 2016/17 of which 66.8 percent were air arrivals, 30.8 percent were arrivals by cruise ships and the rest by yachts. Similarly, travel receipts increased by 27.3 percent in 2016/17. The contributing factors for both trends were some regional conferences held in Tonga during the year as well as the increasing importance of Tonga as a tourist destination in the region—whale watching, snorkeling, surfing and diving, etc. Attendance at churches' annual conferences, schools' celebrations as well as the celebration of HM King's birthday in Vava'u in 2017 also played some part. It is important to highlight that in recent times, the number of cruise ships arriving in Tonga has been on the spike; it increased significantly by 52 percent in 2016/17 compared to previous years, leading to noticeable impacts on tourist receipts. Going forward, tourist arrivals and travel receipts are anticipated to decline slightly in 2017/18 due to TC Gita after-effects, but expected to bounce back to normal in 2018/19 and outer years.

Robust construction activities

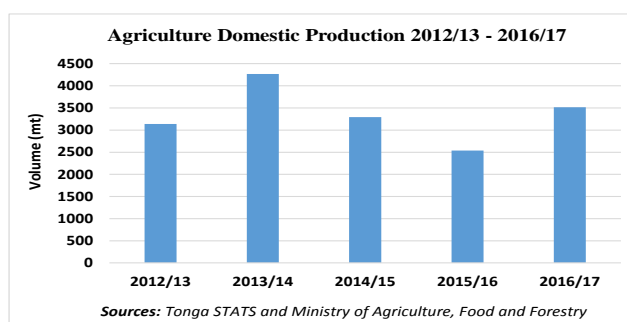
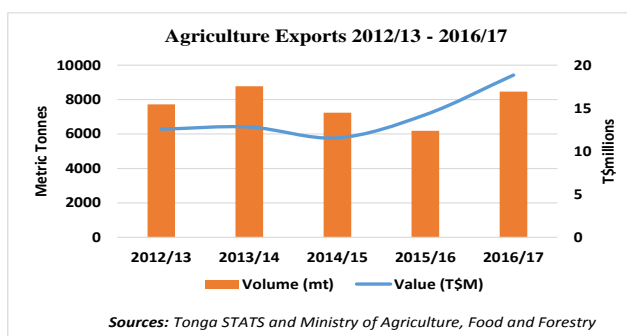
Construction remains the main driver of secondary sector growth in as much as it also spurs growth in other sectors of the economy. The construction sub-sector accounted for 9.5 percent of GDP in 2016/17, up from 9.0 percent in the previous year. The slight increase in 2016/17 was supported by the commencement of earlier-delayed construction activities and projects such as the Ha'apai Royal Residence, NTT hospital reconstruction, new office for electricity and water supplies at Matakia'eua, Hahake packing house and other smaller projects. Other major



construction projects expected to have commenced in 2016/17, such as Phase II of the Tonga High School projects and other sports facilities were further pushed forward to 2018/19. This might have moderated the growth expectation for the sub-sector in 2016/17. During 2017/18, a number of major projects that had earlier reached advanced construction stages were completed. These include the upgrading of the domestic wharf (the Taufa'ahau Tupou IV, previously named the Fuaa wharf), St. George Government Building (SGGB), and the Ha'apai Reconstruction project. In addition, available information indicates a slow down in private sector construction, funded in large part by housing loan, in 2016/17. This may be a direct reflection of the prudent change of policy in the finance market to avoid any overheat in the financial sector.

Agriculture

Agriculture remains the mainstay of a large proportion of Tongan population. It is the main contributor to domestic economic activities (GDP) over time. It accounted for 13.5 percent of GDP in 2016/17 and was estimated to have expanded by 1.3 percent compared to 0.3 percent in 2015/16; an indication of recovery from the drought of 2014/15. Squash (82 percent) and root crops (66 percent) were the leading products that performed well in this period. Vegetables and fruits also contributed as breadfruit products joined the export basket. Kava growers continue to expand output as prices remain high since Europe market had been re-opened in September 2015. The initial forecast for the sector is a moderate growth in 2017/8 through to the end of 2020/21 on assumption that both export and domestic production would continue its increasing trend from the level in 2016/17 (*refer agricultural exports & domestic production charts*). However, assessment of TC Gita impacts necessitated a downward revision of growth estimates for 2017/18 to negative 0.6 percent. On the outlook, positive growth (pick up to 1 percent) is projected for 2018/19. This will expand further to around 3 percent on average in the outer years. This is supported by the ongoing projects and initiatives for recovery purposes, increasing volume agricultural exports – squash pumpkin, root crops and kava. The recovery process of the agricultural sector after the cyclone by allocating of plough hours to villages of Tongatapu and 'Eua will contribute couple with favourable weather conditions. This included allocation of planting materials; agricultural land clearing and logging; procuring and allocation of day old chicks and feed and procurement of reefer container for storage purpose to ensure food security for the nation.



Vibrant financial services sector

The Finance sector accounted for 5.6 percent of GDP in 2016/17 slightly higher than the average of 5.3 percent for the previous five years to 2015/16. The increase was in line with improvement in general economic conditions and strong credit growth. It is also anticipated that the share of the sub-sector in GDP will rise further in 2017/18 and in the medium term with continuing supportive policies and lower lending rates—both for housing and business loans. Activities in the banking sector remain robust, supporting the growth of financial intermediation. For 2017/18 however, a slightly subdued growth of around 5 percent is expected due to negative impacts of TC Gita. Moreover, and as part of the economy-wide support measures to mitigate the impact of TC Gita and spur growth, NRBT continues to implement the Monetary Policy Decision, 15th March 2018 which sets out the agenda to encourage enhanced utilisation of excess liquidity in the banking system, through further lending. This also includes maintaining the monetary policy rate at zero percent, minimum loans/deposit ratio at 80 percent and required deposit reserve at 10 percent. The Reserve Bank continues to monitor and manage the payment system to ensure it is functioning in an efficient, sound and safe manner.

Wholesale and Retail Trade

Wholesale and retail trade accounted for 10.5 percent of GDP in 2016/17. This is in line with the 10.5 percent average of the past five years. This further reflects the growing level of demand for goods and services, increases in coverage and spread of wholesale and retail trade across the country, and increasing household disposable income levels due to remittances. These indicate higher levels of imports of goods and services. Growth of the wholesale and retail trade sector is estimated at 2.7 percent for 2016/17, the same level as in the previous year. Following the same trend, data indicates increasing number of container registered, reflecting higher levels of imports of goods and services, supported by the opening of a bigger shopping centre during the first half of 2017/18 such as Cost Low. Moreover, on the fringes of TC Gita, a much lower than previously anticipated growth of 0.2 percent is forecasted for 2017/18 before strengthening to 2.3 percent in 2018/19. Around an average growth of 2.7 percent is expected for the outer years.

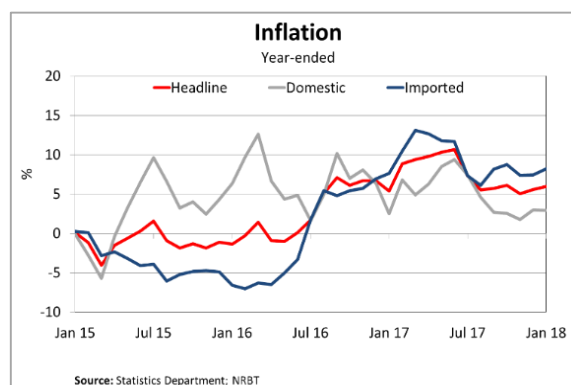
Transport and Communication

Transport and Communication sub-sector accounted for 7.1 percent of GDP in 2016/17. A share of around 7.2 percent is expected in 2017/18 through to the end of the forecast period. The contribution and growth of the sub-sector reflect upward trend in international and domestic shipping and ferry services. The commencement of operation of marine vessels such as M.V. Maggie Catty later replaced by M.V. Maui and the more recent M.V. Tongiaki as well as the completion of the upgrading of the Taufa'ahau Tupou IV Domestic Wharf provide improved and more efficient domestic shipping services across the Islands. Road transportation services also continue to grow stronger with more buses and taxis in operation to meet increasing demands for services in Tongatapu. Ongoing road maintenance works will further enhance land transportation. Furthermore, international flights continue to be more frequent, strengthened by the continuous operation of direct flights between Nadi and Vava'u and on-going projects to upgrade the airports. Strong future growth is anticipated to be supported by the completion of the domestic cable system, and by the submarine fibre optic cable system to Ha'apai and Vava'u boosting capacity of the communication services. In addition, the recently commissioned e-Government Project data centre at Mataki'eua aimed at unifying control and management of systems, will in the near term serve to increase the availability of cross agency information. This will enhance effective decision making, streamline the provision of customer services and save money and resources by minimizing the duplication of services in respective MDAs. At the same time, the two communication operators remain competitive with growing numbers of promotions offered.

Inflation

Headline Inflation remained above the 5 percent reference rate during part of 2017/18 but lower compared to 2016/17 which had recorded high inflation rates largely due mainly to health related reforms of custom duties and excise taxes on various imported food products and tobacco. During this period, the annual headline inflation remained above the Reserve Banks's 5 percent reference rate peaked at 10.3 percent in June 2017.

In July 2017 the annual headline inflation rate slowed to 7.1 percent which reflected the decline in the impact of the new excise tax became effective in July 2016. Nonetheless, there were amendments to the Excise Tax and Customs Duty Order which was effective in July



2017 to increase tax on sugary and /or flavoured drinks, alcohol and tobacco. Also helping to bring down the headline inflation was the domestic inflation. The prices of local fruits and vegetables had declined during July 2017 which drove the aggregate food prices lower reflecting an excess supply and better harvests. The annual headline inflation rate slowed further during the first half of 2017/18, hitting the Reserve Bank's reference rate of 5 percent in November 2017 as compared to 6.8 percent in November 2016 before rising further in the beginning of 2018.

Additionally, the domestic inflation rose by 2.9 percent annually contributing 1.3 percentage points to the overall headline inflation. The prices of electricity and kava-Tonga were the major drivers of domestic inflation. The constant increase in oil prices coincided with a 9.7 percent rise in the electricity price. Kava-Tonga price increased over the year by 22.2 percent. Each of these categories contributed 0.4 percentage points equally to the overall headline inflation.

In the year ended January 2018, the headline inflation rate increased to 6.0 percent. This was mainly due to an 8.2 percent rise in imported prices contributing 4.7 percentage points to the overall headline inflation. The annual imported inflation continued to be driven by higher food, tobacco, and oil prices. The price of imported food was the largest contributor which rose by 9.6 percent contributing 2.8 percentage points to the overall headline inflation. The prices of all imported food categories rose, the highest contributor was the price of meat, fish & poultry which rose by 12.0 percent. This was reflected in a 16.2 percent and 9.4 percent rise in the prices of lamb flaps and chicken pieces respectively. This was followed by a 13.9 percent rise in the prices of dairy products such as butter. Moreover, the price of other food components rose by 5.8 percent which included food such as sweets and sugary drinks reflecting the further increase in excise tax in July 2017.

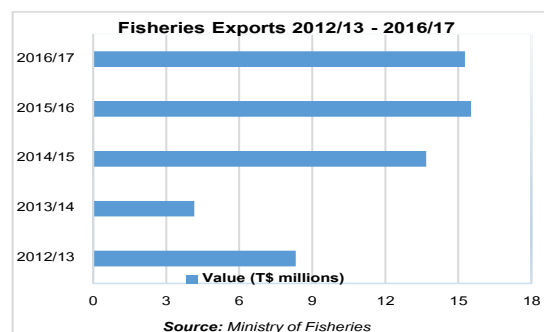
The Reserve Bank anticipates the annual inflation rate to be above the reference rate of 5 percent per annum in the remainder of 2017/18 as the impact of TC Gita is expected to affect the local component of inflation. The annual headline inflation is anticipated to gradually decline below the Reserve Bank's reference rate starting in the second half of 2018/19. However, movements in global food and oil prices may pose a risk to this outlook. Additionally, the vulnerability of Tonga to natural disasters poses a risk to local food prices and consequently, the inflation outlook.

2.3.2 Other GDP sectoral performance and medium-term outlook

Primary sector

The primary sector currently accounts for about 16.8 percent of total GDP in 2016/17. It consists of Agriculture (13.5 percent), Forestry (0.4 percent), and fisheries (3.0 percent) sub-sectors. The sector is of particular importance to Tonga as it not only ensures food security for the majority of Tongans, but also serves as the major employer of labour—employs about 24 percent of the labour force (2016 population census). With support from enhanced performance of agriculture, the primary sector grew strongly in the last decade. While the fisheries and forestry industries have been relatively modest over the same period, their relatively weaker performance have had no pull-down effect on total primary sector growth. The growth for the overall sector for 2016/17 is estimated at 1.9 percent, still on its recovery pace from the drought effects of 2014/15. However, the forecast for 2017/18 is for a negative growth of 0.5 percent due to the impact of TC Gita of February 2018 that significantly disrupted agricultural production—a large volume of plants, coconut, fruits and vegetables were destroyed. Growth is expected to pick up to 1.3 percent in 2018/19 and stabilize at around 3 percent on average in the outer years. This outlook is supported by expected improvement in the performance of all its sub-sectors as a result of various initiatives that are currently implemented and planned ahead. Agriculture continues to drive the primary sector growth as discussed above.

The fisheries industry—second largest subsector under primary sector— accounts for around 3 percent of total GDP. Tonga fisheries production tends to fluctuate considerably due to boom and bust cycles driven by change of policy, resource depletion, changes in the distribution of tuna, market access and prices, environmental factors and growing population. Slower growth rate of 4.7 percent was projected for the industry in 2016/17, compared to the year before, in line with lower export receipts (*refer Fisheries exports chart*) that is attributed to a large reduction of around 88 percent in aquarium exports. Exports of tuna and snapper on the other hand, rose by 44 percent in 2016/17 relative to 2015/16.



For 2017/18, a negative growth is projected of 0.1 percent, which is highly associated with TC Gita impact especially on fishing vessels and other fishing infrastructure. In addition, inadequate infrastructure at the wharf and the airport is still a significant challenge for the future performance of Fisheries' exports. Despite these challenges, moderate growth is expected over the forecast period, reflecting some efforts underway to improve performance.

These included the strong enforcement and compliance to the Tonga Fisheries Sector Plan 2016-2024, the implementing and monitoring of Bareboat Charter Policy, installation of pelagic devices in Tonga, the Draft Sport Fishing Policy. Management Plan for various fisheries products includes the Tonga Deepwater Fishery, SMA 2017-2019 and others. In addition the continuous provision of duty and CT exemption on fishing equipment imports as well as the ongoing initiatives of Special Management Areas (SMAs) helps reduce cost for the sector. The primary objective of these initiatives is to provide a solid foundation for the sector in various perspective. This includes seeking donor funding for the industry's high priority development projects, guide the management and development of the deep slope resources of snapper, grouper and emperors in Tonga Fisheries water. It also provide additional opportunity to promote the domestic tuna fisheries development by allowing fisheries staff to monitor the movement of aquarium fishery boats to ensure compliance with local policy and guidelines. It also ensures sustainable aquarium fishery in the future and constitute another major driving force for the industry, when it becomes operational. Government through its Ministry of Fisheries continued its efforts to convince more communities to adopt the special management areas (SMAs). This aiming at improving the sustainability of fish production through sustainable development and management of marine resource. This concurrently attract attentions to remote and disadvantaged communities. The number of communities participating in the SMA project continues to rise with an aim to reach more than 100 SMAs by 2025.

The forestry industry accounted for only 0.4 percent of total GDP in 2016/17. It mainly comprises of local wood production used for home and office furniture, power poles, timber and firewood, with minimal contribution from sandalwood production. The estimate for 2016/17 is 0.3 percent growth; expected to slow down further to 0.1 percent in 2017/18. This is due to the effects of TC Gita as its impacts have outweighed the expected benefits of recent efforts to revamp the industry by the MAFF.

Information Box: NEW PRODUCT: PURE HONEY ('Eua)

Honey is a new product with great potential for growth in Tonga. It is a food substance with various uses. For medicinal purposes, it could be used for wound dressing and for diabetic patients. Honey has largely been imported into Tonga. However it is now produced locally, even if in very small quantities as compared to demand. The main challenge in exploiting the potential for higher output is insufficient plants/trees which produce the kinds of flowers that are required for honey production. The presence of certain diseases detrimental to bees, such as American Foul Brood is also an impediment. MAFF should take the lead to mitigate these challenges. A family led business in 'Eua is currently the only producer of honey in the Kingdom.



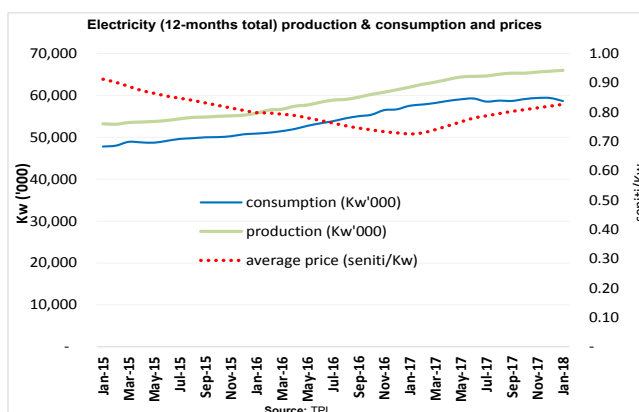
The industry is anticipated to grow at around 0.2 percent in 2018/19 through to 2020/21. This is supported by the ongoing and recovery initiatives that include the development of private nurseries to raise seedlings. Opportunities exist for future growth in the industry given ongoing replanting of timber trees in 'Eua. Replanting, in the near future, will spur the capacity for sustainable production of Sandalwood and other forestry products.

Secondary sector

The industrial/secondary sector accounted for 19.2 percent of GDP in 2016/17. The sector comprises four subsectors: construction (9.5 percent), manufacturing (5.9 percent), electricity and water supplies (2.7 percent) and mining and quarrying (1 percent). The estimated growth for the sector in 2016/17 was 9.1 percent, slower than 12.6 percent in the year before, and expected to slow down even further in 2017/18 given delays in the commencement of a number of construction projects as well as the TC Gita impacts. At the same time, the efforts towards recovery and rebuild in the aftermath of TC Gita are anticipated to significantly improve the performance of the sector in 2018/19 and onwards.

The second largest subsector under secondary sector is manufacturing, which accounted for around 5.9 percent of total output in 2016/17. Output of manufacturing has been on the rise in the last 5 years as more foreigners continue to join in producing of water, bakery, noodles and other goods for both domestic and regional markets. Tourism has a spill-over effect on the manufacturing sector; tourists spend a lot on the purchases of handicrafts when they visit by cruise ships, etc. Kava powder production is also on the rise to meet high domestic demand, further contributing to positive performance of the sector.

Electricity and Water are essential services that play a vital role in economic and social development. Quality electricity and water supply are also prerequisites for effective poverty eradication and growth of industries. Government is ultimately responsible for ensuring reliable universal access of service under accountable regulatory frameworks. Production of electricity and water continue to improve, not only in terms of quantity but also accessibility to consumers in remote areas of the country. The sub-sector also mirrors the growth path of construction as they are closely related. *Graph for electricity* illustrates that the levels for both consumption and production in kilowatt per hour for the twelve-month period ended January 2018 increased when compared to same period a year ago. Similarly, average price per kilowatt over the twelve-months between January 2017 and January 2018 also increased. However, it is also noted the slower rate of increasing at both levels. This slower rate of increasing is in line with slower growth in number of electricity consumers as



Number of electricity consumers			
	Jan-16	Jan-17	Jan-18
Number of electricity consumers	21,714	22,617	23,379
growth rate	5.9%	4.2%	3.4%

Source: TPL

shown in the *Table for number of electricity consumers*. It showed a slowed down to 3.4 percent in January 2018, compared to 4.2 percent and 5.9 percent record for January 2017 and January 2016 respectively. This is coincided with the slowdown in the growth rate for housing loan, the main determinant of private construction and demand for electricity. Lower growth rate for this subsector is forecasted for 2017/18 than 2016/17. On the outlook to growth is anticipated to strengthen to around 3 percent in 2018/19 and rest of the forecast period, highly associated with the recovery initiatives for the industry.

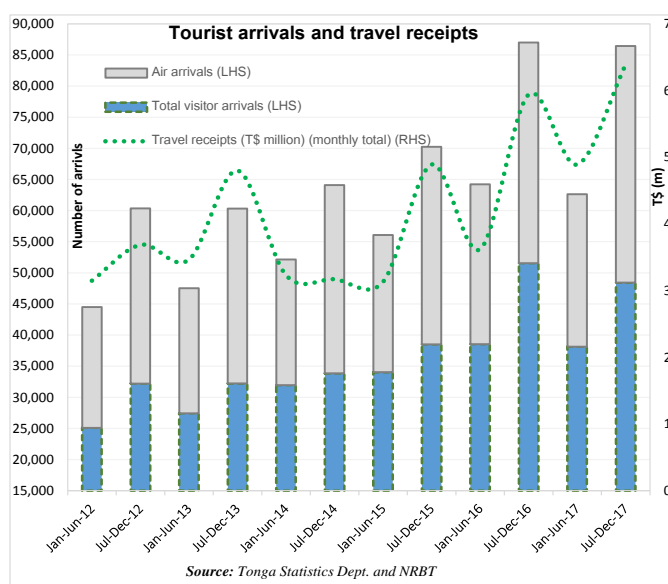
The Mining and Quarrying sub-sector accounted for 1.0 percent of GDP in 2016/17 and estimated to rise further in 2017/18 through to the end of the forecast period. It is an appendage of the construction sector and thus grows/falls concomitantly over the years.

Tertiary sector

Over the past decade to 2016/17, the tertiary or services sector accounted for 54.8 percent, on average, of total GDP. The services sector comprises eleven sub-sectors, led by public administration (12.1 percent), wholesale and retail trade (10.5 percent), ownership of dwelling (9.4 percent), transport and communication (6.4 percent), financial intermediation (5.8 percent), hotels and restaurants (3.1 percent) and others services (7.6 percent). The estimated growth rate for the services sector in 2016/17 is 2.6 percent, a dip towards the normal level after two major one-off events (coronation and Tupou College 150th Anniversary) of 2015/16. Growth is estimated to weaken to 1.4 percent in 2017/18 and strengthen to 2.2 percent in 2018/19. A further expansion is expected in the outer years. Overall growth in the services sector is based on activities in: wholesale and retail trade, transport and communication, financial intermediation, hotels and restaurants, and public administration and services. The expected slowdown in growth rate for 2017/18 is predicated on the TC Gita impacts. On the outlook, the anticipated increase in activities in 2018/19 through to end of the forecast period is highly supported by expected increase in imports and wholesale & retail trade associated with TC Gita recovery and rebuild efforts.

Hotels & Restaurants subsector accounted for 3.3 percent of GDP in 2016/17 in line with the projected 3.4 percent growth for the sub-sector during the year. Improved macroeconomic conditions in the global and regional economies supported the increasing trend of travel receipts and tourist arrivals. In addition, improvement in the standard of available accommodation such as the refurbished Tanoa Hotel and others, as well as expansion in the number of high quality restaurants help in attracting more visitors into Tonga. Regional meetings and private celebrations—weddings, birthday parties and reunions, etc.—have also helped to spur growth of the industry. As always, impressive performance was recorded for the sub-sector during the first half (July-Dec) of the financial year as it coincides with peak season for both tourist arrivals and travel receipts—the Heilala festivities, whale watching season and Christmas and New Year season.

Despite the higher number of air arrivals recorded for the six months period to December 2017, it is estimated that the number of visitors arrival in the second half of 2017/18 would be lower, compared to the same period a year ago. Thus, it is anticipated that the total number of tourist arrivals as well as travel receipts into Tonga for 2017/18 would be much lower. Despite the good performance of the first half of the year, growth projection for the sub-sector in 2017/18 is rather subdued at around 1 percent, due to the impacts TC Gita. The cyclone negatively affected available accommodation in the second half of the year—hotel/motel, resorts, backpacker, apartment/lodger and restaurants mainly in Tongatapu and 'Eua were severely damaged. It also led to cancellation of air travel and accommodation bookings as well as the arrival of one of the cruise ships as



planned. On the outlook, growth for this subsector is projected to strengthen in 2018/19 and in the outer years, associated with recovery of the affected accommodations in Tongatapu and 'Eua.

The Public administration and services sub-sector contributed 11.4 percent of GDP in 2016/17, reflecting the position of Government as largest formal labour employer in the economy (over 5,000 employees). The sector is estimated to grow by 0.1 percent in 2016/17, compared to 0.3 percent in 2015/16. The need to maintain fiscal consolidation implies that public administration and services sub-sector is only anticipated to grow modestly at an average of 0.6 percent in 2018/19 and remain flat over the forecast period. This is lower than the average (1.1 percent) for the past five years, reflecting the fiscal policy stance of government to maintain macroeconomic stability.

The private or non-government owned education, health and social work sector accounted for 2.7 percent of GDP in 2016/17; largely in line with the average of 2.9 percent for the past five years. The sector is estimated to grow at 1.7 percent in 2016/17, slowdown to around 1.0 percent in 2017/18 and strengthen to an average of 1.7 percent in 2018/19 and outer years. The anticipated growth is supported by growing demand for expanded services in non-government education, health clinics and pharmacies as well as in social protection and welfare schemes and services to the elderly and disabled.

The ownership of dwelling subsector is also assumed to follow the construction subsector and highly supported by the favourable banking environment; cheaper lending rates in particular. The entertainment and private services sub-sector accounted for 2.8 percent of GDP in 2016/17. It is projected to continue to grow at around 1.3 percent on average in 2017/18 and in the medium term. The outlook is optimistic and driven by cultural activities such as churches, community and family functions that take place during the course of a year.

2.3.3 Fiscal outlook

Fiscal Anchor and Position

The overall fiscal balance has responded very well to turbulences in the wake of the Global Financial crisis (GFC). Hence, up until to 2016/17, the fiscal balances remained moderately favourable. Improved performance in domestic revenue collection as a result of various policy changes and government's prudent financial management supported this. To further guide the fiscal resilience of Government, few fiscal anchors were established to reinforce the country's vision for a more resilient economy, maintain macroeconomic stability and provide a consistent guide to annual fiscal policy. The fiscal outlook for the medium term is more challenging as operating expense is tightly controlled so that there is enough fiscal space for recovery.

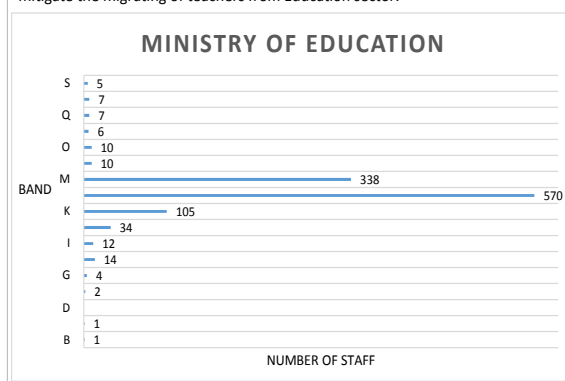
Moreover, the Government has developed an evidence-based medium-term fiscal anchor, to provide a consistent guide to annual fiscal policy making in an inherently volatile environment. These anchors, which consist of a set of quantified benchmarks for key fiscal aggregates, aim to reflect critical policy objectives of maintaining aggregate fiscal sustainability, revenue mobilization and wage bill affordability. They also provide clear and transparent mechanism for communicating these objectives across MDAs and to the public. The

Information 1 Ministry of Education and Training: Issue on Staffing.

Ministry of Education and Training is facing difficulties in maintaining its staff from leaving the Ministry. Teachers are moving across to other line Ministries while others migrating overseas. This issue causes shortages of qualified teachers in Government school.

Teachers that are moving between Ministries are the ones with Accounting, Economic and Science qualification.

Brain drain remains an unsolved issue for more than 50 years as teachers continue to migrate overseas. However, this issue can be addressed at different level so to mitigate the migrating of teachers from Education sector.



fiscal anchors are monitored through the framework of Tonga's Macroeconomic Model. This framework allows for periodic sensitivity analysis of impacts of any policy decisions.

As established in the 2017/18 budget strategy framework, the fiscal anchors are as follows:

- The government revenue target of a minimum of 22 percent of GDP in both the short and medium-term.
- Compensation of Employees¹ cost restraint over the whole period – a short-term adjustment target of 53 percent in the medium term will be more feasible to target, towards a longer-term target of 50 percent. However, the other benchmark is to tie the wage bill to the operating expenses and to maintain at 45 percent of operating expense.
- Debt target² of nominal external debt at no more than 50 percent of GDP with any new external debt contracted on highly concessional terms.

Fiscal Anchors	13/14	14/15	15/16p	16/17f	17/18f	18/19f	19/20f	20/21f
Domestic Revenue (>22% of GDP)	20.6	22.4	24.5	25.5	26.0	27.8	26.6	26.1
Compensation of employees (<53% of domestic revenue)	61.2	65.7	58.4	53.3	53.6	53.5	54.1	52.5
Compensation of employees (<45% of operating expense)	45.3	46.7	44.7	43.4	41.1	37.4	37.4	38.5
Debt to GDP ratio (<50%)	41.82	44.83	41.55	38.69	36.79	34.31	30.84	27.16

In 2017/18 budget strategy, a set of prudent fiscal strategies were established to address fiscal risks as shown above. Firstly, to raise domestic revenue collections to pre-GFC levels (at least 22 percent of GDP) while at the same time strengthen government's capacity to a more resilient level. Between 2007/08 and 2011/12, government revenues declined considerably, partly as a result of policy changes aimed at supporting the grassroots that were affected by the impact of rising prices. Since 2011/12, domestic revenue started to return to the pre-GFC level. It rose from 18 percent in 2011/12 to an estimated 26 percent in 2017/18. Over the medium term, domestic revenue to GDP ratio is expected to remain above 26 percent on the assumption of no further changes to current revenue policy that came into effect in 2017/18.

Secondly the resource allocation to increase the ability of other than "compensation of employees" to effectively provide goods and services and investment. In that regard, compensation of employee's costs was raised to limit at no more than 50 percent of domestic revenues or government capacity. Simultaneously, government raised to limit compensation of employee's costs to 45 percent of operating expenditure under the same note to maintain the fiscal sustainability. Over the medium term, the ratio of compensation of employees to domestic revenue is expected to remain on the edge of the threshold. However, being vulnerable to internal and external shocks posed a threat to the fiscal sustainability. One minor risk worth noting are donor funded projects that are in their completion stage and are highly likely to be absorbed by government.

Thirdly, the aim to minimize external borrowing. Government is recommended to borrow externally only on highly concessional terms. Since the completion of two large low concessionality loans in 2012, government avoid any further external borrowing except the highly - concessionality³ windows of World Bank and ADB

¹ Compensation of employees includes salaries and wages and contributions to Retirement Fund. Shortened as Wages bill. It is assume grow in line with inflation plus one percent. Wage bill affordability was assumed to take longer than the medium term as originally estimated in the Macroeconomic model with a high chance of meeting this target in the long run.

² The volatility model illustrates the potential destabilizing impact of rapid debt accumulation in a significant minority of cases where shocks turn out the more severe than average.

³ where concessionality is calculated relative to a loan at a 5% interest rate

through budget support. The target of external loan of 50 percent of GDP was then established as a guide. Within the medium term, the target has achieved reflecting improvement in the economic activities.

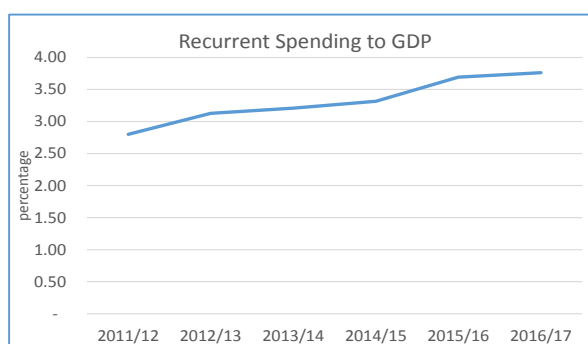
Classification of Function of Government

In this budget statement, the Classification of Functions of Government (COFOG) is introduced for the first time. The introduction of COFOG is aimed to assist in determining the effectiveness of government various programs such as in health, education and social protection. It also helps in the GDP forecasting as well as other analytic applications. COFOG provides key aggregates that could be used as indicators or measures of results. This classification can also be used for comparative purposes of Tonga and other countries with regards to performance such as trend of government expenditure by main functions in relation to applicable policies. But most of all to further analyse government spending and its effectiveness.

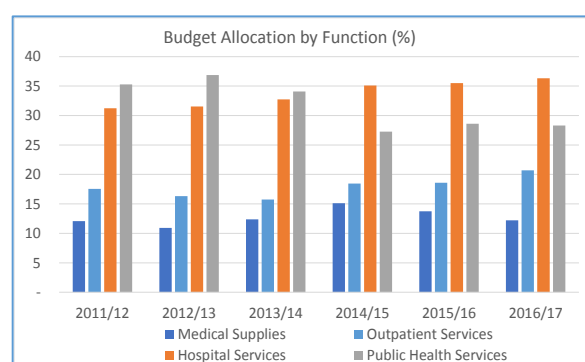
This classification is integral to the Government Finance Statistics but somewhat different slightly from the structure of the GFS. It is a classification of expenditure according to purpose as per the main function of government. There are ten main divisions of this classification and they are subdivided into several groups depending on the purpose. Then from these divisions, all expenditure on a particular function is aggregated into one category of COFOG regardless of the economic nature of the expense.

In this regards, the remaining paragraphs of this section discuss few functions of government in relation to health as an example. For instance, the fiscal spending and budget allocation to Ministry of Health (MOH) by functions in relation to the current policies involved. The other important aspects to look at in future analysis is the effectiveness of policies that had been implemented.

The actual Recurrent Health spending to GDP has gradually increased in the last 6 years at an average growth rate of 6.2 percentage point. This increases related to diverse ranges of factors, but not limited to, such as cost of health services, demographic health structure changes and demand. The growing concern on the Non Communicable Disease's has attracted attentions from both domestic and donors may have seen a possibility of sizable shift in domestic spending and budget allocation to Public Health Services function due to its significance. This has led donors providing finance to uphold the promotion of NCDs awareness.

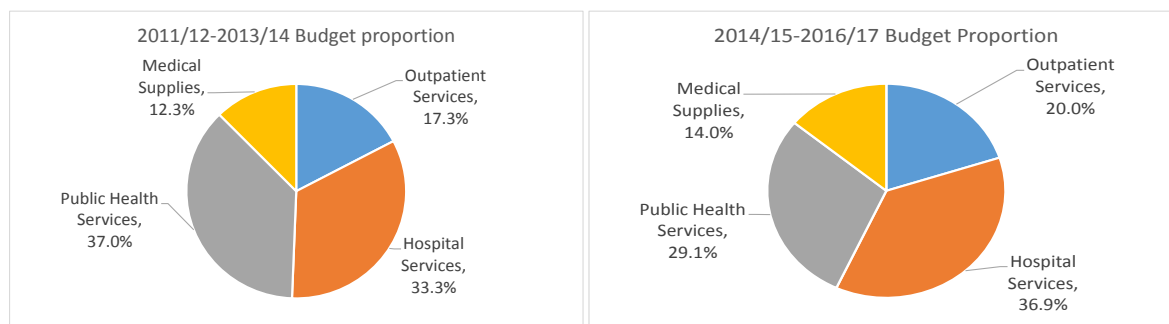


The budget allocation for Ministry of Health in the last 6 year divided its resources on the 4 main functions of health as stipulated in the COFOG Manual 2014. These included the (i) Hospital Services, (ii) Outpatient services, (iii) Public Health Services and (iv) Medical supplies. Around 65 percent of the ministry's budget resources was allocated towards Hospital services and the rest of its budget allocation was assigned to Medical Supplies and Outpatient services. The trend of the budget allocation for Hospital Services and Public Health Services has reflected some interesting features with increasing share in Hospital services allocation is increasing its share while Public Health Services is declining. However, donors are already in



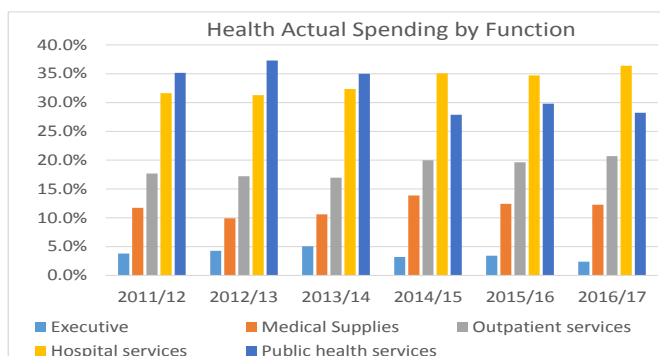
the health combat zone providing funds to guard our growing population from NCD as well as other health related issues.

The trend of budget allocation for Medical supplies poses another interesting issues as its share from the total budget allocation for the ministry declined from 2014/15 to 2016/17 compared to other functions of the ministry. Medical supplies is considered as an important factor in the curative process as well as restorative process. Having explained its supportive role to other functions it is assumed to grow in scales according to other functions of the ministry. However, this example will go into that budget allocation decision but rather provide some light for future allocations. The other factors that contributes to Medical supplies will not be covered in this analysis.



The trajectory of health spending according to function as reflected in the pie charts indicated a shift in budget allocation between health functions. The Hospital Services reflected an increase in its budget allocation from 33.3 percent to 36.9 percent. The budget allocation for Public Health services function fell from 37 percent to 29.1 percent. Budget allocation for Medical supplies has increase its proportions. The reasons behind this structural changes is not known but this will further consider in future budget planning.

There are ranges of policies in the health sector in relation to NCD and ongoing efforts in tracking the effectiveness of fiscal policies are in place. The World Bank together with related government ministries currently working on survey on the effectiveness of tax measures against NCD. This work will contribute to the same objective from the fiscal spending perspective.



2.3.4 Debt Performances

The country's public debt portfolio continues to be highly exposed to foreign currency risks. Hence foreign borrowing implies that Government needs to be abreast with the ramifications. Going forward, the large share of foreign currency debt in the portfolio leaves Tonga highly vulnerable to exchange rate movements, predominantly debt from the People's Republic of China (PRC), this is serviced in US Dollar. As per the theme for this year's budget, "*Recovery with Greater Resilience*", Government's objective is to continuously strive to maintain external debt at a sustainable level. New borrowings should only be contracted to support high priority investments and on highly concessional terms. Needed priority undertakings include infrastructure projects related to the development of air transport facilities through the Tonga Transport Sector Consolidation Project (TSCP) with an on-lent loan component to Tonga Airports Limited (TAL); and a highly concessional loan component from the ADB Pacific Disaster Resilience Program. This source has been providing funding to

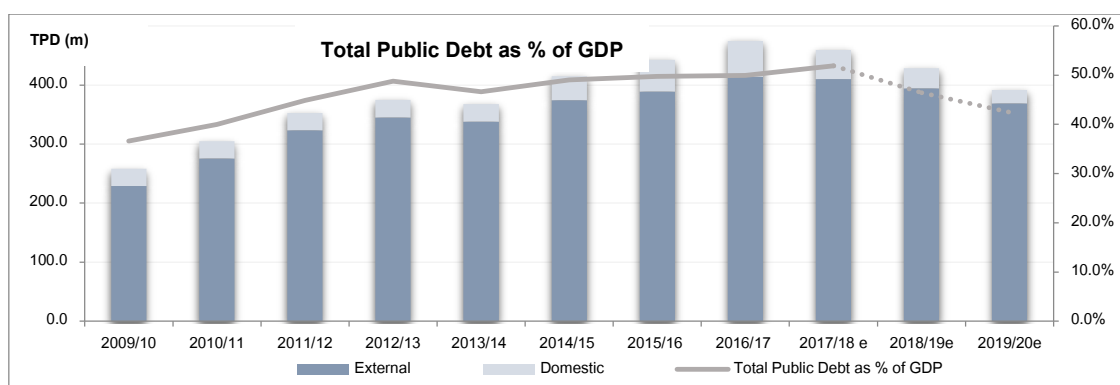
improve the resilience of Tonga to disasters triggered by natural hazards via support of policy actions in disaster risk management (DRM), and provision of a source of contingent financing for timely disaster response, early recovery, and reconstruction activities.

Government is also discovering ways to lessen the costs and risks in the Government's debt portfolio and continue to emphasize fiscal prudence in managing of its public debt as part of its budget strategy. This is supported by the revised debt sustainability analysis provided by the International Monetary Fund (IMF) in December 2017, whereby Tonga's debt sustainability analysis increases the external debt distress rating from moderate to high risk. As a result, budget support funding that used to be 50 percent grant and 50 percent credit are now 100 percent grant only.

The first Medium Term Debt Strategy (MTDS) produced by Debt Management Section which was approved by Cabinet in 2015 for 3 years, will be revised by end of June 2018. In view of this, Government is in consideration of alternative borrowing strategies which will help to meet its debt targets and assist to achieve a more desirable balanced composition of public debt.

Total Public Debt as at end June 2018

Total Public Debt (\$million) 2009/10 – 2019/20 (including actual and projected)

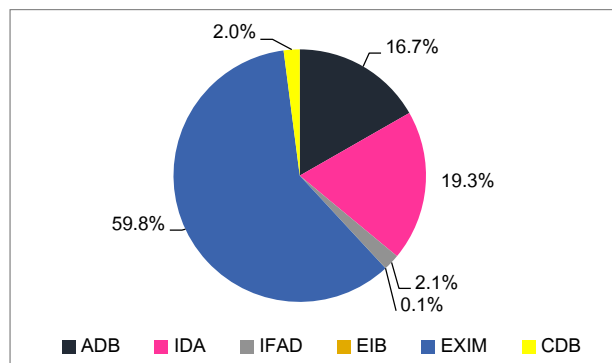


Total public debt as at 30 June 2018 is estimated at \$467.1 million (*47 percent of GDP*), an increase of 3.6 percent from June 2017. This is mainly due to an increase in external debt attributed to budget support credit portion, disbursement made for OIREP and Pacific Disaster Resilience Program (PDRP) from ADB. An increase in domestic debt resulting from new issuance of Government Bonds in December 2017.

External Debt

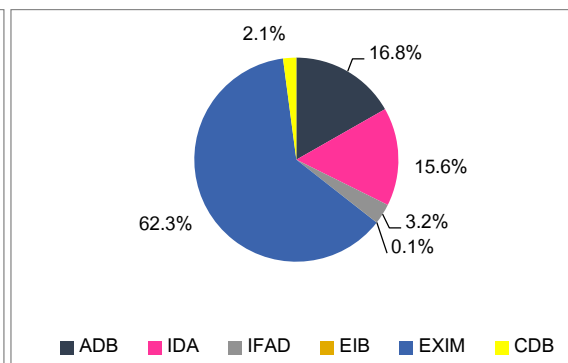
External Disbursed Outstanding Debt

(DOD) by Creditor, June 2017



External Disbursed Outstanding Debt

(DOD) by Creditor, June 2018



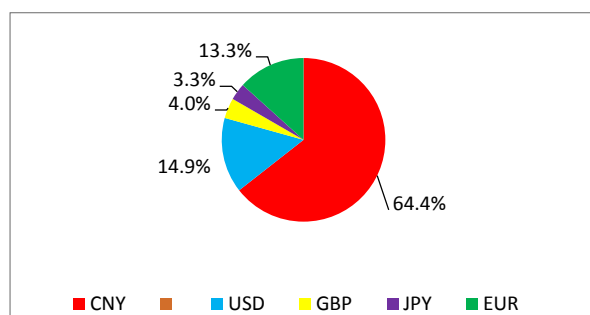
Total external debt as at 30 June 2018 is, shown above, estimated at \$409.8 million⁴ (41 percent of GDP). Nearly two third of this is owed to the Export-Import (EXIM) Bank of China. The main change, since June 2017, was the loan component of budget support from Asian Development Bank to the Pacific Disaster Resilience project, disbursement made for the Outer Island Renewable Energy project and in addition due to depreciation of the Pa'anga against some of the borrowing currency.

A high debt service bill is also due to commence repayment in 2018/19 due to mutual agreement between EXIM Bank and Government of Tonga to defer repayment of principal of China loans for a period of five years.

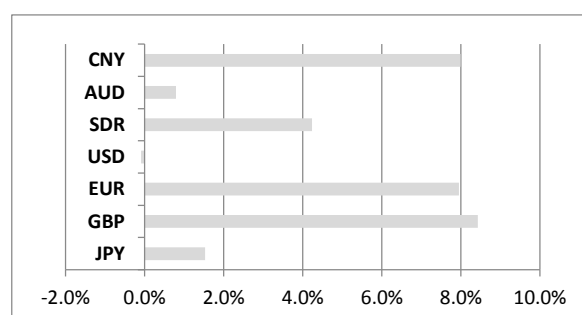
Currency Denomination of External Debt

The main outstanding currency denomination of the external debt is in CNY, as at 30 June 2018 at \$263.9 million (64.4 percent) and the Special Drawing Rights (SDR) and other currencies at \$145.9 million (35.6 percent). The projected changes in value during June 2017 to June 2018 of the Pa'anga against the borrowing currencies (including SDR currency components).

External DOD by Currency as at 30th June 2018



FC/TOP Exchange rate Fluctuations, as at 30th June 2018

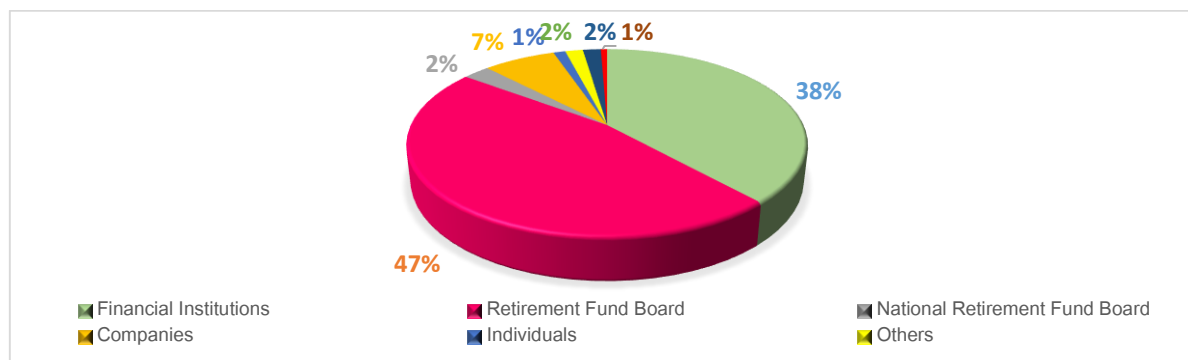


⁴ Excludes future movement of exchange rates from April 2018

Domestic Debt

Total Domestic debt, as at 30 June 2018, is estimated at \$57.4 million (6 percent of GDP); consisting of 100 percent Government bonds on issue. The distribution of bond holders are shown below, with Retirement Fund Board accounting for about 47 percent.

Government Bond Holders (%) as at 30th June 2018

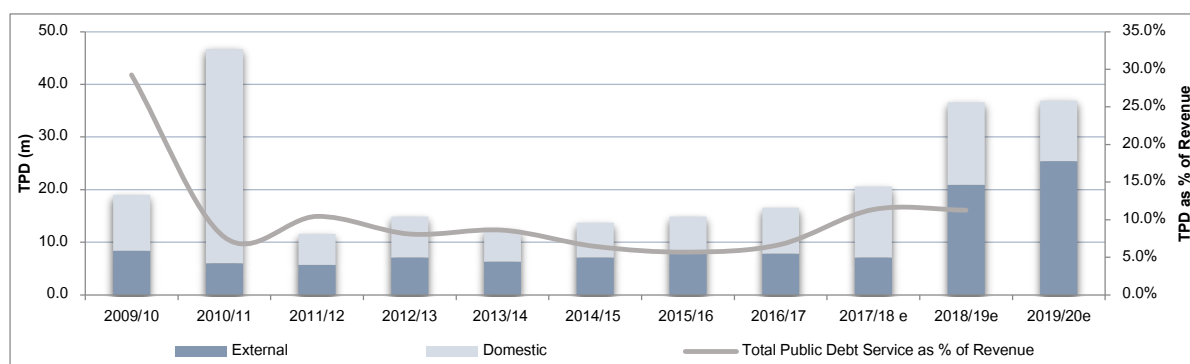


Debt Service

Total debt service (expenditure), for the year ended 30 June 2018, is estimated at \$28.2 million (equivalent to 3.0 percent of GDP). This comprises external debt service of \$13.4 million (48 percent) and domestic of \$14.8 million (52 percent). This implies a rise from the \$23.4 million in June 2017, due mainly to an increase in Government Bonds maturing in 2017/18.

The main repayment months for external debt, are September 2017 (26.1 percent of total external debt service), and March 2018 (20.7 percent of external debt). Repayment of domestic loans on the other hand are due in October 2017 (35 percent of total domestic debt service) and April 2018 (57.1 percent). There are no public debt payment arrears anticipated⁵.

Total Public Debt Service (\$million) 2009/10 – 2019/20e (including actual and projected)



With the deferral of loan repayments for the two EXIM Bank loans, principal repayments will start in 2018/19. This will cause a significant rise in external debt service. This upsurge will bring the total external debt service to \$26.3 million, with an estimated \$13.0 million increase from 2017/18.

The projected total public debt service, with external debt service based on the known new loans in the next few years with rescheduling of EXIM Bank loan repayments, at the latest available exchange rates, not taking into account of any future currency movements. The domestic debt service is based on current bond maturity (principal) at average term of 6 years and at weighted average (interest) of 3.2 interest on the total bonds on issue (\$57.3 million). Projection for further domestic borrowing in the medium term will be on similar terms.

On-lent Debt and Guaranteed Debt

Total on-lent debt, at 30 June 2018, due to Government from various public and other quasi-government enterprises is estimated at \$52.3m⁶ (5.5 percent of GDP and 12.8 percent of total external loans). The decrease of \$0.2 million in the outstanding on-lent debt between June 2017 and June 2018 is mainly due to repayment made during the Financial Year.

All sub-borrowers (shown below) under the two phases of the on-lent EXIM loan have signed their agreement with government, apart from City Assets Ltd that is yet to sign due to some unresolved issues.

On lent Loans as at 30th June 2018

Sub-Borrowers	Jun-17 (\$m)	Jun-18 est. (\$m)
Tonga Development Bank (TDB)	1.50	1.33
Seastar Fishing Co. Ltd	3.65	3.65
Ports Authority Tonga Ltd	0.15	0.09
Tongatapu Market Authority Ltd	1.72	1.70
CBD Reconstruction Projects		
Phase 1 (EXIM)		
Royco Amalgamated Co. Ltd	2.15	2.15
MF Taumoepeau Ltd.	7.16	7.16
OG Sanft Ltd	10.25	10.25
CBD Reconstruction Projects		
Phase 2 (EXIM)		
City Assets Ltd	6.76	6.76
Tungi Colonnade Ltd	16.57	16.57
Tonga Asset Managers & Associates	1.44	1.45
Agriculture Managed Fund loans	0.94	0.94
Fisheries Fund loans	0.25	0.25
TOTAL	52.49	52.30

Total debt service receipts from on-lent loans as at 30 June 2018 is estimated at \$0.8 million. The on-lent receipts consist of repayments received from TDB of \$0.4 million (51 percent), Ports Authority Tonga of \$0.2 million (25 percent), O. G. Sanft of \$0.1 million (13 percent), and Tonga Asset Managers & Associates of \$0.1 million (11 percent).

Total Government Guaranteed loan, as at 30 June 2018, amounted to \$5.0 million which is an undertaking by TDB in favour of Tevita Misa Fifita & Sons Ltd. The government guarantee was set to originally matured in

⁶ Includes Agriculture and Fisheries Loans to private sector

March 2018, however due to some restructure exercise that is urgently required by TDB, Government has extended the maturity date for another 6 months to expire in September 2018.

Summary of Debt Ratios

The actual debt sustainability indicators against the various targets. Net Present Value (NPV) of debt ratios against other macro data remain within the new indicators, when exports and remittances are included. It is however in breach of the indicators without remittances. The NPV of external debt as a ratio of GDP and exports, are above the target value and this will limit borrowing. These estimates are also based on foreign exchange rates as at April 2018 and do not take into account any future fluctuations of the Pa'anga.

Sovereign Debt Sustainability Indicators of Tonga

Indicators	(IMF) Tonga Target %	Est. 2016/17	2017/18	2018/19	2019/20
NPV of external debt as:					
% of GDP	40%	47%	42%	45%	41%
% of GDP & remittances	36%	40%	37%	37%	35%
% of exports	150%	248%	248%	239%	231%
% of exports & remittances	120%	106%	104%	102%	99%
% of government revenues	250%	168%	166%	162%	159%
Debt Service as:					
% of exports	20%	15%	18%	26%	25%
% of exports & remittances	16%	6%	7%	11%	12%
% of revenues	20%	10%	12%	18%	16%

2.4 Risks

Potential risks that can affect the economic forecast include risks from fragile global growth that can weigh down development in Tonga via reduction in remittances, foreign aid and tourism. Domestic risks can also affect fiscal sustainability due to large burdens on fiscal spending. This includes increased staff costs as well as cost towards recovery efforts particularly if there is short fall in indicative donor interventions. Furthermore, any further delays in implementation of infrastructure projects can affect the growth trajectory during the forecast period.

2.5 Monetary Policy & Outcome and BOP

Monetary Policy Actions

The National Reserve Bank of Tonga (NRBT) continues to maintain internal and external monetary stability, promote financial stability and a sound and efficient financial system aiming at macroeconomic stability and economic growth. During 2017/18, the following policy actions were implemented to enhance its role in promoting macroeconomic and financial stability:

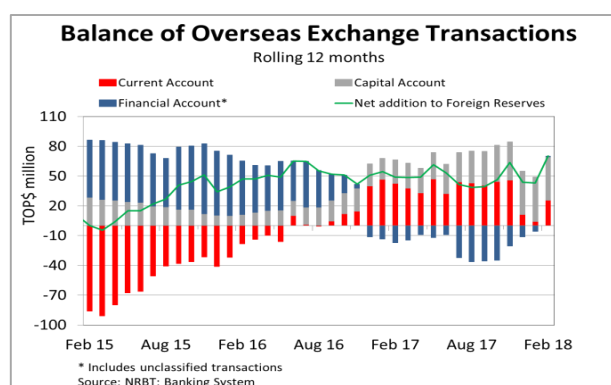
- Set the monetary policy rate (interest rate on bank's exchange settlement accounts or excess reserves) at 0 percent (zero interest rate policy);

- Set the minimum loans/deposit ratio at 80 percent;
- Set the inflation reference rate at 5 percent;
- Set the Statutory Reserve Deposit ratio at 10 percent;
- Develop the domestic market through the usage of open market operation (such as the issuance of NRBT notes) and/or government bonds, and thereby mop up the excess liquidity in the system and contribute to improving the monetary policy transmission mechanism; and
- Continue the financial inclusion initiatives by improving access to financial services and provide further protection to the consumers through regulating the non-bank financial institutions. Three legislations were recently passed by Parliament for the regulation of microfinance institutions, money lenders and foreign exchange dealers, await royal assent.

Monetary Policy Outcomes

Balance of Overseas Exchange Transactions

The overall OET balance for the year ended February 2018 was a surplus of \$70.3 million, higher than a surplus of \$49.1 million in the same period of last year. The overall surplus corresponds to a rise in the foreign reserves to \$448.0 million at the end of February 2018, equivalent to 8.1 months of import⁷ cover. The higher surplus in the OET balance compared to the previous year was largely attributed to the surplus in the financial account, after recording a deficit in the previous period. In addition, the higher surplus in the capital account was partially offset by a lower surplus in the current account.



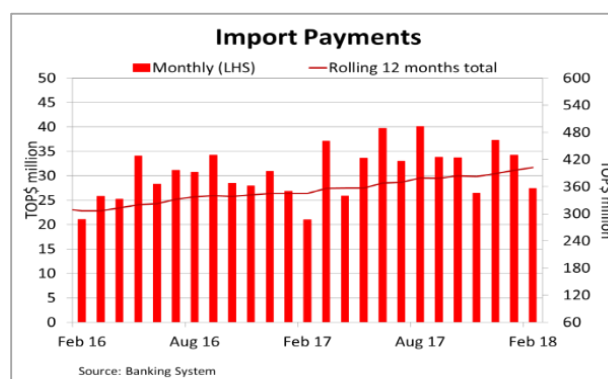
Current Account

The current account balance for February 2018 recorded a surplus of \$25.4 million compared to a surplus of T\$42.4 million in the same period a year ago. Higher deficit in the trade account and income account outweighed the increase in surpluses recorded in the transfers and services accounts. Higher import and dividend payments drove the lower surplus in the current account balance. On the other hand, higher remittance and travel receipts contributed to the surplus in the transfers and services accounts. The increase in travel receipts was due to major festivities that took place during the year such as the Heilala festivities, schools (Tonga High School & Mailefihi and Siu'ilikutapu College, etc.) and church anniversaries and various family reunions.

⁷ Methodology used for this calculation has changed to include both imports of goods and services

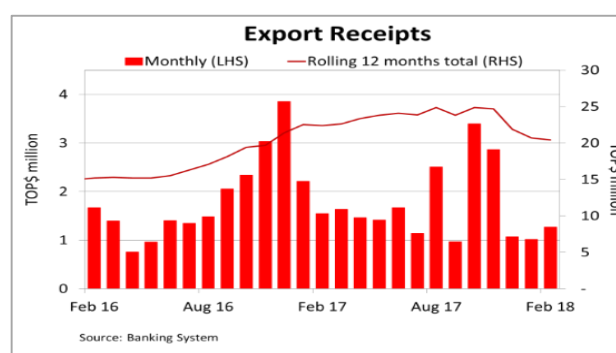
Imports

Total import payments for the year ended February 2018 were \$402.5 million, rising by 16.7 percent (\$57.7 million) from the previous year. Major categories of imports increased over the year in line with the improved domestic economic activities. The major events during the year increased consumer consumption and provided a boost to higher import of wholesale and retail goods. This was in line with a 14.2 percent increase in container registrations and the opening of new shopping centres e.g. Cost Low. Majority of the imports were sourced from New Zealand whereas the majority of the import payments were made in USD.



Exports

In the year ended February 2018, export receipts fell by 8.8 percent, which was attributed mainly to lower proceeds from the export of agricultural and marine products which declined by \$1.9 million and TOP\$1.6 million respectively. This could be due to proceeds left abroad in line with the time lag effect. Despite this, the volume of squash exported rose over the year by 1,576 tonnes. Majority of export receipts were in USD. The strengthening of the USD against the Tongan Pa'anga supported the increased in squash proceeds over the year ended January 2018.



Capital Account

The capital account balance for the year ended February 2018 was a surplus of T\$43.9 million, an increase of \$19.8 million from the previous year. This was attributed to higher official and private capital receipts outweighing the higher capital payments. These were mainly grant receipts and payments for both private and Government investment projects for businesses, non-profit organisations and individuals. The upgrading of the Fua, which now known as 'Taufa'ahau Tupou IV' Domestic Wharf, St. George Government Building, Tonga Power Limited projects and Tonga Airports Limited projects all contributed to the higher surplus.

Financial Account

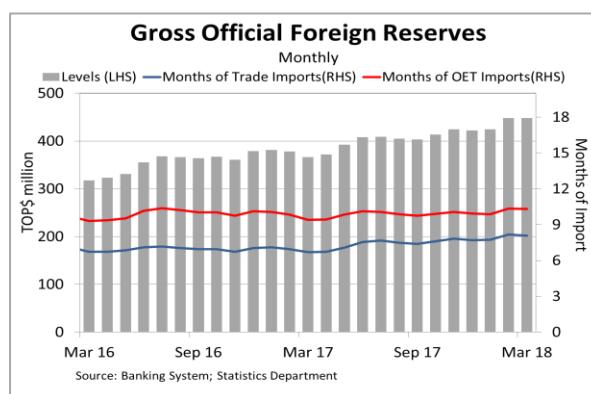
The financial account balance for the year ended February 2018 was a surplus of \$1.0 million, compared to a deficit of \$17.4 million in the previous year. This was due mainly to higher interbank transfers.

Official Foreign Reserves

As at the end of March 2018, the foreign reserve was \$447.7 million after recording a record of \$455.0 million on 7th March 2018, which is equivalent to 8.2 months of imports cover, well above the Reserve Bank's minimum range of 3-4 months. On 6th April 2018, foreign reserves stood at \$446.3 million (7.9 months of import cover). The level of foreign reserves is expected to remain at very comfortable levels above the minimum range of 3-

4 months of import cover, supported by expected higher receipts of remittances and the anticipated government receipt of budget support, grants, and cyclone relief funds from development partners.

This will be partially offset by the projected rise in imports and the commencement of the principal loan repayment of the Government's loan from the EXIM Bank in China in September 2018. The Reserve Bank forecasts the level of foreign reserves to increase to \$485 million in June 2018 (8.0 months of import

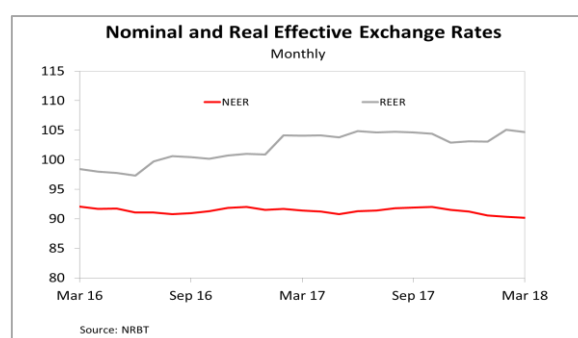


cover) and will remain at comfortable levels above the minimum range of 3-4 months of import cover. Delays to the inflow of aid and budget support from development partners combined with the pace of development in the domestic economic activities pose a risk to the foreign reserve outlook. Uncertainties in the world fuel and commodities prices and vulnerability to natural disasters remain a risk to the outlook of foreign reserves.

The amendment to the Foreign Exchange Control Act to establish a framework for the return of the proceeds and earnings from exports of goods and services, such as tourism activities, that are being rendered in Tonga has been passed by the Legislative Assembly. This would support the Reserve Bank's role of managing the foreign reserves.

Exchange Rates

The real effective exchange rate (REER) index is anticipated to rise by 0.6 percent while the nominal effective exchange rate (NEER) index fell by 1.4 percent in the year ended March 2018. The rise in the REER index reflected Tonga's higher headline inflation rate relative to its trading partners, which may impact the international competitiveness of the Tongan



exports of goods and services. The depreciation of the Tongan pa'anga over the year against the United States Dollar (USD) and the Australian Dollar (AUD) led to the fall in the NEER index. The Reserve Bank monitored the movement of the exchange of the pa'anga against other currencies with a view to ensure that the country's balance of payments position and price stability are maintained at levels that are consistent with the achievement of macroeconomic stability. The IMF Article IV mission assessed the value of the pa'anga to be in line with fundamentals, and there are no signs of deteriorating competitiveness.

Lending Balances

Over the year to February 2018, total banks' lending increased by \$55.0 million (14.3 percent) to a new record high of \$439.5 million. This lending growth includes Government Development Loans (GDL) facilitated by the Tonga Development Bank (TDB). The yearly increase stemmed from rises in both business and household loans. Total banks' lending (excluding GDL) increased by \$56.7 million (15.1 percent) driven yet again by both business and household loans. The GDL contributed \$8.3 million to the total bank lending over the year to February 2018.

Household loans (including GDL) rose over the year by \$23.4 million (10.7 percent) to \$241.3 million, mainly as a result of a \$25.2 million (15.9 percent) increase in housing loans. This outweighed a \$1.6 million (2.7 percent) fall in other personal loans and a \$0.2 million decline in vehicle loans. The consistent increase in

household loans continued to reflect constantly rising demand of households, capacity to access loans and positive developments for the housing and construction sectors. This movement further supports the number of economic activities evident throughout the year. Without the GDL scheme, household loans increased over the year by \$22.1 million (10.1 percent).

Similarly, annual banks' lending to businesses (including GDL) rose by \$31.9 million (19.3 percent) due to higher lending to the public enterprises, wholesale & retail, transport, tourism, manufacturing and fisheries sectors. The higher lending to businesses indicated rising business confidence and growth in respective business sectors. The low interest rates on the GDL scheme continued to support credit growth and the economic activities in these sectors. 1.9 percent of total loans were funded from the GDL in which the total outstanding loans stood at \$8.3 million as at the end of February 2018, decreasing from \$9.9 million in February 2017. Without the GDL scheme, banks' lending to businesses still increased by \$33.0 million (20.9 percent) over the year.

Lending Balances (including GDL)

	Lending Balances					Change over the		Shares of totals %
	Level as at				Feb 17 TOPm	1 month %	1 year %	
	Feb 18 TOPm	Jan 18 TOPm	Dec 17 TOPm	Nov 17 TOPm	Feb 17 TOPm			
Lending, banks	439.5	437.5	436.7	420.3	384.5	0.5	14.3	100.0
Household	241.3	241.2	244.1	239.7	217.9	0.0	10.7	54.9
Business*	197.4	196.7	192.7	180.8	165.5	0.4	19.3	44.9
Other	0.9	0.8	1.0	0.9	1.1	3.2	-23.3	0.2
Lending, banks and other	591.6	589.5	588.1	570.8	520.1	0.4	13.7	100.0
Household	342.6	342.0	343.7	338.3	301.1	0.2	13.8	57.9
Business	248.0	247.8	244.4	232.6	217.8	0.1	13.9	41.9
Other	0.9	0.8	1.0	0.9	1.1	3.2	-23.3	0.2
New comm'ts, banks	8.8	6.8	28.7	13.2	21.5	28.3	-59.2	N/A
Undrawn comm'ts, banks	16.9	16.9	18.2	11.1	21.4	-0.4	-21.0	N/A
Implied repay'ts, banks	6.8	7.3	5.2	11.4	18.5	-6.6	-63.2	N/A

* Method for calculating these series was updated in August 2014, resulting in revisions to the full history of data
Sources: SPBD; RFB; MOFNP; Banking system

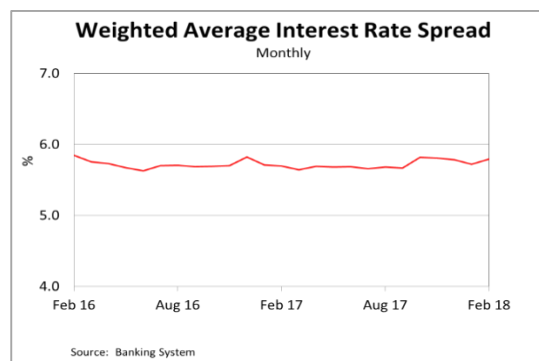
The Reserve Bank has revised upward its credit growth forecast to 16 percent in 2017/18 from 15 percent that was published in the August 2017 MPS. The banks' Tropical cyclone relief packages are expected to support further credit growth. In addition, the excess liquidity in the banking system remains indicating there is capacity for further lending by banks hence supporting banks' efforts to support customers borrowing to recover from the cyclone. At the same time, structural reforms to improve the credit environment such as improvement to the land administrative system and a bankruptcy law would improve the confidence of the banks to lend prudently. Furthermore, the continuous improvement in business confidence, improving economic conditions and ongoing annual events are anticipated to support credit growth. The Reserve Bank will continue to closely monitor the credit growth and broad money movements to ensure financial and macroeconomic stability are maintained and that there is no overheating in the economy.

Deposit Balances

In year ended February 2018, total banks' deposits rose by \$52.9 million (10.1 percent) to a record high of \$577.2 million. Term deposits contributed the most by \$52.0 million (25.7 percent) due to investments by the retirement funds, public enterprises, private sector and government. The receipt of government's budget support contributed to this increase as well as improved government revenue collection throughout the year. Saving deposits increased by \$5.6 million (7.3 percent) due to a rise in deposits by non-profit institutions mostly churches and schools. Demand deposits however declined over the year by \$4.7 million (1.9 percent), driven mainly by return of foreign investors' funds abroad.

Interest Rates

The weighted average interest rate spread widened over the year to February 2018 by 9.6 basis points to 5.79 percent. This was a result of a 9.6 basis points increase in the weighted average lending rate outweighing the 0.02 basis points rise in the weighted average deposit rate. The rise in business and housing lending rates both contributed to driving the weighted average lending rate from 7.86 percent in February 2017 to 7.95 percent in February 2018. The increase in the weighted average deposit rate was attributed to the higher savings deposit rates coupled with the rise in deposits. Overall, the interest rates continued to support both the higher credit growth and growth in deposits over the year.



Broad Money Balances

Broad money rose over the year to February 2018 by \$48.0 million (9.4 percent) to a new record high of \$558.2 million. This was significantly driven by an increase in net foreign assets of \$65.9 million (16.4 percent) which stemmed from the rise in the official foreign reserves. Net domestic assets however fell over the year by \$17.9 million (16.6 percent) due to a decline in the net domestic credit (extended to private sectors). Broad money is projected to increase in June 2018 by 14 percent, as projected in the August 2017 MPS, supported by the anticipated rise in lending and the foreign reserves. However, this growth outlook is projected to also rise in line with the upward revision in the credit growth due to Tropical Cyclone Gita.

Consolidated Balance Sheet of Depository Corporations

	Level as at				Change over the last:		
	Feb-18 \$TOPm	Jan-18 \$TOPm	Dec-17 \$TOPm	Nov-17 \$TOPm	Feb-17 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	558.2	552.5	560.6	553.5	510.2	1.02	9.4
Currency in circulation	65.8	60.8	69.3	58.0	50.9	8.31	29.3
Demand deposits	181.8	177.5	182.0	192.1	200.7	2.44	-9.4
Savings and term deposits*	310.5	314.2	309.3	303.4	258.6	-1.19	20.1
<i>equals</i>							
Net foreign assets	468.1	446.2	441.8	444.2	402.2	4.9	16.4
<i>plus</i>							
Net domestic assets	90.3	107.5	119.0	109.6	108.3	-15.9	-16.6
Gross bank lending**	442.9	440.9	440.6	424.5	394.6	0.5	12.2
Public enterprises	52.9	52.9	53.7	45.1	41.4	0.1	27.7
Private Sector	387.9	386.2	384.7	377.7	352.2	0.4	10.2
Other financial corporations	2.0	1.8	2.2	1.7	1.1	13.9	94.0
Other***	-352.5	-333.4	-321.5	-314.9	-286.4	5.7	23.1

* Also includes very minor amounts for securities other than shares.

** Differs slightly from standard measures of bank lending by amounts classified as accrued interest.

*** Includes mostly capital accounts of the banks and NRBT, and their net claims on the central government.

Sources: Banking system; NRBT

Despite the increase of the Statutory Required Deposit requirement from 5 percent to 10 percent in July 2017, liquidity in the banking system (reserve money)⁸ increased over the year by \$19.7 million (7.1 percent) to \$297.6 million. This was due to rises in the statutory required deposits and currency in circulation. Higher currency in circulation reflected the higher spending by individuals and businesses during the year. This had

⁸ Liquidity in the banking system (reserve money) is a sum of currency in circulation, exchange settlement account balances, and statutory reserve deposits.

offset the movement in deposits by the commercial banks to the Reserve Bank vault which decreased over the year. The banks' total loans to deposit ratio (including GDL) increased to 76.2 percent in February 2018 from 73.3 percent in February 2017 and reflected the annual growth in lending outweighing the growth in deposits. The bank's total loans to deposit ratio (excluding GDL) still increased to 74.7 percent in February 2018 from 71.4 percent in February 2017 and reflected the continued strong growth in lending. However, this ratio remains below the 80 percent minimum loan to deposit ratio target, which indicates excess liquidity in the banking system remains and that there is capacity for further lending by banks.

Banking System's Performance

Total assets of the banking system rose by 7.3 percent (\$55.1 million) to \$809.2 million over the year ended February 2018. This was due mainly to a 12.2 percent (\$46.7 million) growth⁹ in total loans, Cash held at Banks of 47.8 percent (\$7.3 million), and an increase in Items in transit of 186.8 percent (\$5.4 million). Total liabilities increased by 8.6 percent (\$51.9 million) to \$656.0 million which is largely attributed to a 10.1 percent (\$52.9 million) growth in total deposits over the year.

The total banking system remained profitable over the year to February 2018 with strong liquidity and capital positions. The Return on Assets (ROA) was 3.2 percent and the Return on Equity (ROE) was 12.8 percent compared to 3.4 percent and 12.1 percent respectively last year. The improved profitability over the year was due mainly to growth in both interest and non-interest income outpacing the rise in non-interest and provision expenses. The net interest margin slightly fell to 3.2 percent in February 2018 from 3.3 percent in the same period last year due mainly to credit growth rising faster than the growth of interest income.

The banking system's capital position remained strong as the risk-weighted capital ratio was at 30.5 percent in February 2018 which was comfortably above the Reserve Bank's minimum requirement of 15 percent. However this was lower when compared to 33.8 percent recorded in February 2017. The decline over the year largely reflected the dividend payments by banks during the year as well as the growth in banks' loans contributing to the higher risk weighted assets.

The overall quality of the bank's assets improved over the year. Total Non-Performing Loans rose slightly by 1.0 percent (\$0.1 million) to \$16.8 million over the year to February 2018. This represents 3.9 percent of total loans compared to 4.3 percent a year ago. The decline in the proportion of non-performing loans to total loans was driven by the continuous loan growth and the settlements and write offs over the year mainly of private business loans and some housing loans. Provisions against loan losses fell over the year by \$0.3 million to \$14.0 million, due mainly to the upgrade of some of the loans to performing status as well as the write offs during the year. The total coverage ratio which shows the capability of the banks' total provisions to cover non-performing Loans slightly fell to 83.3 percent from 86.1 percent last year. The value of collateral held against all delinquent loans above 90 days reported by banks was at \$16.4 million compared to total non-performing loans above 90 days of \$16.9 million.

The Reserve Bank continues to monitor and manage the payment system to ensure it is functioning in an efficient, sound and safe manner.

Supervision of Non-Bank Financial Institutions (NBFIs)

The supervision and oversight of all non-bank financial institutions remains work in progress. The legislations have been approved by the Legislative Assembly and are awaiting royal assent. A draft credit union bill still in

⁹ Note that GDL is included in the February 2017 data therefore the removal of GDL from TDB Portfolio in October 2017 is factored in on this growth.

processed through the law committee. Work is in progress to develop the regulatory framework for retirement fund supervision, insurance companies, investment firms and capital market and to implement the approved legislations.

Anti-Money Laundering / Counter Financing of Terrorism (AML/CFT) Efforts

The Financial Intelligence Unit (FIU) continued to carry out its role pursuant to the Money Laundering and Proceeds of Crime Act (MLPCT Act) in order to combat money laundering and terrorist financing activities.

During the year, these activities included training sessions for all its reporting entities, conducted compliance visits for all authorized restricted foreign exchange dealers (FEDs) to verify their compliance with the AML/CFT related requirements. In addition, related work in preparation for Tonga's mutual evaluation by the Asia Pacific Group on Money Laundering (APG) in late 2019 are in progress. This includes drafting of amendments to the MLPC Act and Regulations, and the completion of the National Risk Assessment (NRA).

Furthermore, the FIU has also initiated communications with its counterparts in New Zealand, China, Bangladesh and Taiwan in an attempt to explore opportunities to further its information source and to formalize exchanges of information with these countries. This led to a draft Memorandum of Agreements/ Understandings from these FIUs to progress with negotiation phase. The FIU's application for membership at the Egmont Group continues to be on hold pending on legislative amendments which will go through to Parliament by November 2018. The FIU continues to receive, analyse and disseminate suspicious transaction reports (STR) filed from its reporting entities.

Way Forward

The Reserve Bank's monetary policy objectives were observed during the year to March 2018. Upward inflationary pressure remains in the near term and is expected to remain above the Reserve Bank's inflation reference rate of 5 percent per annum in 2018. The level of foreign reserves is also expected to remain at comfortable levels supported by expected higher receipts of remittances and foreign aid. This will be partially offset by the projected rise in imports and the commencement of the Government's principal loan repayment to the EXIM Bank in China in September 2018. The stability of the financial system was maintained with no signs of overheating despite the strong credit growth over the year and excess liquidity remains in the financial system. In light of the above developments and the outlook on the monetary policy targets, the current accommodative monetary policy stance is considered appropriate in the medium term. Therefore, these monetary policy measures will remain unchanged in the medium term in order to encourage the utilisation of the excess liquidity in the banking system to increase lending, particularly to the growth sectors, in order to support domestic economic growth and recovery from Tropical Cyclone Gita, and strengthen the monetary policy transmission mechanism.

- ✓ Maintain the monetary policy rate (interest rate on banks' exchange settlement accounts or excess reserves) at 0 percent (zero interest rate policy);
- ✓ Maintain the minimum loans/deposit ratio at 80 percent;
- ✓ Maintain the Statutory Reserve Deposit ratio at 10 percent;
- ✓ Maintain the inflation reference rate at 5 percent.

The Reserve Bank will remain vigilant and continue to closely monitor developments for early signs of vulnerabilities which may indicate overheating of the economy. Furthermore, the Reserve Bank will continue to closely monitor developments in the domestic and global economy, and update its monetary policy setting to

maintain internal and external monetary stability, and to promote a sound and efficient financial system in order to support macroeconomic stability and economic growth.

2.6 Social Development

The recently released population census data (2016) implies the availability of in-depth household information that will further support government efforts at closely monitoring youth unemployment, poverty & hardship and other socio-economic indicators for adequate policy response and intervention. Available information indicates that the life expectancy at birth for Tonga is 75.2 years (73.8 for men and 76.6 for women), and the adult literacy rate is 99.4 percent (*Population Division of the Department of Economic and Social Affairs of the United Nations*). Extreme poverty is notably rare, and health and education indicators are relatively strong, due to government investments in these areas over the years. Tonga continues its journey towards achieving the Sustainable Development Goal (SDG) indicators, other global development targets and the TSDF II; building upon the good progress it achieved with the MDGs.

Poverty in Tonga

Poverty is multi-dimensional. Its conceptualization, measurement, interpretation and use over time have diverged across the different regions of the world and multilateral/regional institutions. Hardship is one variant that has been used in Tonga to describe the economically disadvantaged; defined as people 'having difficulty to meet the basic needs such as education, health, social security and transport'. That is, those with noticeable difficulty in access to opportunities or deprivation. Hardship, as against earlier definition(s) of poverty is deemed appropriate for Tonga. Almost all households have their income augmented in one way or the other by remittances and support received from extended family and community network at most times.

An important dimension of poverty or hardship in Tonga is child deprivation. According to the United Nations Children's Fund (UNICEF), "children living in poverty are those who experience deprivation of the material, spiritual and emotional resources needed to stay alive, develop and thrive, leaving them unable to enjoy their rights, achieve their full potential, and participate as full and equal members of society" (UNICEF, 2005). In this regard, the Household Income and Expenditure Survey (HIES) 2015/16 showed that there is a slight reduction in the number of children experiencing deprivation in Tonga, with more than five items of 25 percent compared to 29 percent in 2011/12.

In another study that uses consensual approach with the HIES 2015/16 data, reliable evidence reveals that around 11,800 children experience multiple deprivation and thus are living in poverty or hardship. It also showed that children in the rural islands are severely affected when compared to those in the rural Tongatapu and urban areas. Furthermore, about one in seven children (13 percent) do not have adequate diets by today's standards; their families cannot afford to provide their children with 'three meals a day' or 'one meal with fish, meat or vegetarian equivalent daily'. Food deprivation is worse in the rural islands compared with Tongatapu.

The study also reveals that around one in five children do not have essential clothing items such as new properly fitting shoes, all school uniforms and equipment, or new clothes when the old clothes wear out. About a third of the children in Tonga suffer from social deprivation. Their families cannot afford celebrations on special occasions such as the children's birthdays, they cannot afford school trips and school events which cost money, or equipment for outdoor leisure activities, like a bicycle. Three out of every five (59 percent) children live in households which cannot afford to maintain adequate living standards for all household members. That is, they cannot afford regular savings for emergencies or all medicines prescribed by a doctor when sick or their own means of transportation. About one in every 10 children in Tonga live in households who either cannot afford enough bed and beddings for every child or a suitable place for study or do homework at home. Child

deprivation is about more than mere survival, this research provides robust information about wider aspects of children's lives and needs. The findings highlight the need for early development support initiatives. Investment in young children is an essential for a successful society and the development of the national economy.

Labour force and unemployment

Total population for Tonga in the 2016 Population Census was 100,651 - comprising of 49.9 percent males and 50.1 percent females; a slight decline of 2.5 percent relative to the 2011 census data. Of this population, 40.4 percent or 40,623 people are in the labour force or economically active - aged 15 years and older. Out of the economically active population, 83.6 percent or 33,973 people were employed—60 percent male and 40 percent female. Of the total employed population, 68.7 percent were paid workers, 22 percent subsistence workers and the remaining categorized as unpaid family workers or volunteer workers. 78 percent of the employed population are from the urban areas and 22 percent from the rural areas in Tongatapu and the outer islands. The employment-population ratio did not change by much in 2016; 36.6 percent, compared to 36.7 percent in 2011. In general, a high ratio is considered to be above 70 percent of the working-age population whereas a ratio below 50 percent is considered to be low. As usual, this employment-to-population ratio is typically higher for men than for women.

The total number of unemployed people, by the 2016 population census is 6,650 or 16.4 percent unemployment rate. This arises out of the revised definition employed by the Statistics Department in analysing the 2016 Census data¹⁰; *'people who did not work during the reference week but were available and willing to start work'*. If subsistence workers are included in the unemployed category, the unemployment rate increases to 34.8 percent, as the number of unemployed people increases to 14,120. That is on the grounds that these people would look for work if they believed cash work was available in their labour market community. Of this 14,120 unemployed people, 27.9 percent are males and 42.9 percent females; 23.3 percent are in the urban areas and 38.1 percent in rural areas. On the other hand, the unemployment rate remains at 1.0 percent if the earlier definition, that was used in the 2011 Census—*'if a person, aged 15 and over, did not work during the reference week, but available and willing to work, and looking for work'*—of the unemployed is applied. In this regard, the number of unemployed, using the 2016 Census would have been 348 people.

Health

In view of combating NCDs, a number of policy measures have been introduced by Government, such as the recent increase in excise rates on alcohol and tobacco goods to discourage smoking and alcohol consumption and promote healthy lifestyles. The expectation is that these measures will result in reduced consumption of the goods, in the near-term and onwards. Data from the 2016 population census indicates that amongst the population aged 10 and above, less female are smokers—either of imported or local tobacco—and less female drink alcohol and kava tonga compared to male. Using the same population aged 10 and above, about 14 percent consume alcohol (23.5 percent for males and 5.1 percent for females) and 17.8 percent drink kava tonga (35.7 percent for males and 0.6 percent for females).

¹⁰ The Statistics Department revised its definition of the unemployed based on recommendation of the International Conference of Labour statisticians (ICLS) that looking and seeking for work are of limited relevance, because the labour market is largely unorganized or of limited scope, where labour absorption is, at the time, inadequate, or where the labour force is largely self-employed, the standard definition of unemployment may be applied by relaxing the criterion of seeking work. Such a relaxation is aimed primarily at those developing countries including Tonga, where the criterion does not capture the extent of unemployment in its totality. With this relaxation of the criterion of seeking work, which permits in extreme cases the criterion's complete suppression, the two basic criteria that remain applicable are "without work" and "currently available for work" (2.271 & 2.272 of the Principles and Recommendations for Population and Housing Censuses Revision 2) (Tonga 2016 Census of Population and Housing, pg. 9).

Social protection and welfare scheme (Old Age Social Assistance): 70 years and older

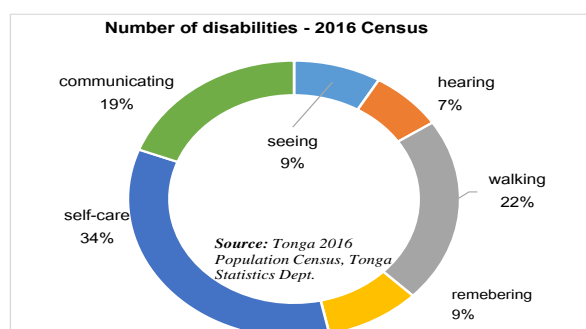
Government continues to address relevant issues through the 'Social Protection and Disability for 2017-2030' policy measures. This emphasizes the desired outcome for an inclusive, sustainable and empowered human development with gender equality giving equal access in all opportunities to the vulnerable group, ensuring that they have better care & support. Government also continues with its efforts, together with stakeholders, to increase institutional care and support services for vulnerable group. This is through enforcing the implementation of other relevant policy and programs to ensure that the disadvantaged and vulnerable groups in the society receive adequate care.

In addition to the monthly stipend for disabled discussed in the next section, government also continues to provide monthly stipend for elderly population, aged 70 years and above. This includes the payment for existing pensioners aged 70+, as well as those who are not in any form of cash employment. During the year 2017/18, beneficiaries under this scheme in Tongatapu and 'Eua were fortunate to receive additional grants of T\$225—one-off payment for the month of March—from the Government of Australia as part of assistance in the immediate response after TC Gita. In the same vein, social insurance coverage was extended about 6 years ago, beyond public servants to also include the private sector, such that employees and employers make matching contribution, administered by the National Retirements Benefits Fund (NRBF).

At the time of census 2016 survey, there were 4,045 elderly people, eligible by age, that is 70 years and older to receive the monthly stipend. It is expected that total payment at the end of June 2017 would be higher, not only in monetary terms but also in number of members, than the \$2.9 million (3,964 members) at the end of June 2016. Payment of monthly stipend under this scheme in 2018/19 would continue at the new rate approved in 2017/18.

Disability.

In the 2016 Census, 10.6 percent of the total population aged 2 and above were reported as disabled, higher by 2 percent, than in the 2011 Census. Data on disabilities of functioning were collected for different level of difficulties such as seeing, hearing, walking, remembering, self-care and communicating. The most common responses on disabilities were with self-care (34.2 percent), disabilities in mobility (21.6 percent), communicating (19.2 percent), memory (9.3 percent), seeing (8.5 percent) and hearing (7.2 percent). In these regards, mentioned group of disabilities are also relevant in recognizing those eligible for social protection and disability support. As highlighted, Government continues to ensure that the disadvantaged and vulnerable people such as person with special needs (disabilities) can access social protection through support not only from government and development partners but also from families, relatives, friends and communities. Support provided by government include the payment of monthly stipend for disability at \$75 per person at the Disability Welfare Scheme (DWS) A'u kiai cash assistance.



Women and children

Women and children are the most vulnerable segment of the population in a society, regardless of the important roles women play in their families and communities. Vulnerability can be in different form and at different levels, posing differing range of economic and social risks. Violence against women and children is noted as one major factor responsible for poor health, livelihood insecurity and inadequate social mobilization of women, making

them particularly vulnerable to poverty. In terms of vulnerability in Tonga, data reveals that over 2,000 cases were reported to the Women and Children Crisis Centre (WCCC) – active and convenient for victims - between 2010 and 2016. On average, majority of cases reported to the WCCC were domestic violence—78 percent—followed by child abuse cases (about 18 percent); the remainder being other violence cases.

In addition, women and children are also vulnerable to natural disaster as observed after the TC Gita. Vulnerability could also be associated with households that are headed by females, where members of the household are young children and elderly or disabled, and in many cases where the eldest male in the household is either away overseas, deceased, separated or divorced or single. Some of the women in this situation are far more likely to be unemployed, illiterate, have fewer assets, have very little access to credit or loans, and rely on subsistence agriculture or the informal sector for income. Generally, in such circumstances, economic risks are worsened by social issues such as pervasive gender inequality, unequal access and control over resources. In addition, limited participation / decision making power and somehow resulted in the absent of children from school, early marriage and pregnancy, working at very young age and others. In view of reducing vulnerabilities to disaster and climate change risks and building resilience to shocks, development partners such as the United Nations Children's Fund (UNICEF), other UN agencies, and international and local nongovernment organizations (NGOs) are working closely with the government to provide immediate humanitarian relief assistance to vulnerable children and women after the TC Gita. Government acknowledges the work of WCCC and other NGOs that are at the forefront in dealing with the vulnerable group and communities in Tonga. At the same, government, through the Ministry of Internal Affairs, supported by all stakeholders and development partners continue to develop and promote relevant coping strategies for women and girls in Tonga, to strengthen their ability to mitigate shocks.

Education

As mentioned above, the adult literacy rate in Tonga is 99.4 percent (99.35 percent for male and 99.45 percent for female). Youth literacy rate—aged 15-24 years—is 99.45 percent (99.36 percent for males and 99.54 percent for female). This indicates a high level of people that can read and write in Tonga. From the 2016 census, of the population aged 5-14 years, 94.5 percent (94.3 for male and 94.8 for female), were enrolled in school at the census time; 1 percentage point higher than in the 2011 census. School attendance rates were moreover noted to decrease rapidly after the age of 15. For population aged 15-19 years, 29 percent were not attending school at the time of the 2016 census survey. Across all age groups, the school attendance rate for female were higher compared to male. At all school levels, 75.8 percent (compared to 74.6 percent in 2011 census) of population aged 15 and older were at secondary school, followed by 10.8 percent (compared to 16.1 percent in 2011 census) at Tertiary education. 7.8 percent and 5.1 percent were in technical & vocational education and primary education respectively.

Despite the increase in government investment in education, indicate mixed results in which raise issues for policy discussion and intervention. That is, issues such as the level of commitments from teachers, parents, students and the community require interrogation. Concerted efforts will be needed in policing of students to attend schools, not only to avoid drop outs but achieve higher goals for a better future. In addition, there is a need for a structural reform of the schools system and reward mechanism. The most appropriate benefits for teachers, both in government and non-government schools need to be worked out to avoid continuing shortages of teachers. In this regards, government continues with relevant effort towards its intended assistance to mission schools. Furthermore, concerted efforts are required in ensuring replacement of necessary educational infrastructure and facilities to facilitate education programs. Classrooms and office buildings that were recently impacted by TC Gita will have to be urgently repaired or replaced.

3 STRATEGIC DEVELOPMENT FRAMEWORK (TSDF II & GPA 2018-2021)

3.1 Government Budget 2018/19 in TSDF II Pillars

Tables below illustrate the 2018/19 recurrent and development Budget estimates by TSDF Pillars and the GPA. By TSDF Pillars, it shows that three Institutional Pillars continue to dominate the recurrent budget —*Social Pillar* (\$138.3 million or 38%); *Political Pillar* (\$95.4 million or 26%); and *Economic Pillar* (\$81.7 million or 22%). While the two Inputs pillars—Infrastructure and Technology Inputs (\$117.7 million or 40%) and the *Natural Resource and Environment Inputs* (\$93.3 million or 32%) dominate the development budget. This is due to various number of aid funded projects and programs included energy and reliable safe and affordable transport services. Also there are relevant projects and activities related to improve resilience to natural disasters and impact of climate change. These are included in the recovery plan for TC Gita.

Government Budget 2018/19 Grouped by TSDF II Organization Outcomes (\$M)						
TSDF II Pillars	Bud. Est. 2017/18		Bud. Out. 2017/18		Bud. Est. 2018/19	
	Rec	Dev	Rec	Dev	Rec	Dev
Economic Institution	73.8	21.9	68.5	11.9	81.7	26.4
1.1 Improved macroeconomic management and stability with deeper financial markets	46.2	0.1	42.6	0.1	57.0	0.1
1.2 Closer Private Public Partnership for Economic Growth	6.0	7.9	5.7	7.9	6.6	10.6
1.3 Strengthened business enabling environment	11.2	7.9	10.1	0.2	6.8	7.3
1.4 Improved public enterprise performance	1.2	0.0	1.1	0.0	1.3	0.0
1.5 Better access to and use of overseas trade and employment and foreign investment	9.1	6.0	9.0	3.7	10.1	8.3
Social Institution	129.6	82.8	124.2	30.8	138.3	41.9
2.1 Improved collaboration with and support to civil society and community groups	5.1	44.2	4.9	1.7	5.4	9.5
2.2 Closer Partnership between Government, Churches & Other Stakeholders for community development	1.9	0.5	1.7	0.4	1.9	0.1
2.3 More appropriate Social & Cultural Practices	5.2	1.5	5.2	0.0	5.2	0.0
2.4 Improved Education & Training Providing Lifetime Learning	51.4	18.9	47.5	14.7	56.6	20.1
2.5 Improved Health Care and Delivery Systems	33.4	16.5	33.4	13.6	35.5	12.1
2.6 Stronger integrated approaches to address both communicable & non - communicable diseases	9.0	0.04	8.5	0.08	9.8	0.05
2.7 Better care & support for vulnerable people, in particular the disabled	14.3	1.2	12.3	0.3	13.2	0.06
2.8 Improved collaboration with the Tongan diaspora	9.2	0.0	10.8	0.0	10.9	0.0

Government Budget 2018/19 Grouped by TSDF II Organization Outcomes (\$M)						
TSDF II Pillars	Bud. Est. 2017/18		Bud. Out. 2017/18		Bud. Est. 2018/19	
	Rec	Dev	Rec	Dev	Rec	Dev
Political Institution	77.7	16.8	73.1	11.6	95.4	14.0
3.1 More Efficient, Effective , Affordable, Honest,	34.5	8.1	28.6	2.8	50.7	4.1
3.2 Improved Law & Order and Domestic Security appropriately applied	20.5	2.2	19.1	2.17	21.2	3.95
3.3 Appropriate decentralization of government admin with better scope for engagement with the public	1.3	0.0	1.2	0.0	1.5	0.0
3.4 Modern & Appropriate Constitution, laws & regulation reflecting international standard of democratic of democracies processes	4.6	0.0	5.4	0.0	4.9	0.0
3.5 Improved working relations & coordination between Privy Council, executive, legislative & judiciary	3.1	0.8	2.8	0.87	3.7	0.49
3.6 Improved collaboration with development partners	0.5	0.5	0.4	0.5	0.6	0.5
3.7 Improved Political and Defense Engagement within the Pacific and the rest of the World	13.1	5.2	15.7	5.2	12.8	5.0
Infrastructure & Technology	53.9	94.6	29.3	83.0	40.3	117.7
4.1 More reliable and affordable energy services	1.1	29.0	1.0	23.6	1.2	64.9
4.2 More reliable , safe , affordable transport services	17.3	52.5	15.2	51.9	12.1	37.6
4.3 More reliable , safe & affordable information and Communication Technology used in more innovative	1.0	2.3	0.8	1.4	1.2	13.2
4.4 More reliable , safe & affordable, building and other structures	30.3	10.8	8.4	6.15	20.2	1.95
4.5 Improved use of reserch & development focussing on priority needs based on stronger foresight	3.9	0.1	3.7	0.0	5.3	0.0
4.6 More reliable, safe, affordable water supply and control, and sanitation services	0.3		0.2		0.3	
Natural Resources & Environment	9.5	35.1	8.8	27.1	10.3	93.3
5.1 Improved land use planning & management for private and public spaces	2.7	0.0	2.4	0.0	2.6	0.0
5.2 Improved used of natural resources for long term flow of benefits	1.6	0.04	1.5	0.0	1.9	0.0
5.3 Cleaner environment with improved waste recycling	0.8	0.0	0.8	0.0	0.9	0.0
5.4 Improved resilience to natural disasters and impact of climate change	4.4	35.1	4.2	27.1	4.9	93.3
TOTAL	344.4	251.2	303.9	164.3	366.0	293.3

3.2 Government Budget 2018/19 in Government Priority Agenda 2018-2021

The 2018/19 budget by GPA, both recurrent and development allocations reflect Government priority intervention areas in developing human capital—health, education and other social services—enhancing private sector development, enabling business climate, energy efficiency, infrastructure and tourism. All of these are aimed at improving productivity and promote inclusiveness in sustainable and climate resilience at all levels.

Budget 2018/19 by Government Priority Agenda

Government Priority Agenda	Original Budget Est 2018/19 (\$m)	
	Recurrent Est	Development Est
Agriculture	10.8	10.1
Recovery	20.6	25.4
Economic Public Infrastructure	17.5	54.4
Employment	4.2	1.5
Energy Efficiency	1.2	64.9
Fisheries	4.3	4.5
Good Governance	5.6	18.9
Law and Order and Security	28.7	11.4
Resource Mobilisation	62.4	1.7
Social Infrastructure	100.5	60.2
Tourism	5.0	40.2
Trade	2.4	0.0
Buildings-Residential & Public	10.9	0.2
<i>Others</i>	92	
Grand Total	366.0	293.3

4 BUDGET STRATEGY PRIORITIES

4.1 Budget Strategy 2017/18 Highlights

This section provides the highlights of major achievements of the approved Budget strategy and priorities in 2017/18 while noting ongoing efforts in other areas. The approved priorities were: sports development, completion of on-going and high impact capital projects, improving Total Factor Productivity, developing the private sector-manufacturing and tourism, improving the functionality of existing infrastructure, Social Development: health and quality of education, Climate change resilience and renewable energy and good governance.

For sports development, sports equipment and supplies worth around \$1.5 million funded by Japan. In education, the construction of Tonga High School Sports complex, valued at \$70 million is to be spread into the medium term. The on-going high impact capital projects include: (i) Tonga Climate Resilient Transport Project (TCRTP) by World Bank at USD\$28 million; (ii) road (USD\$14.8); (iii) maritime investment (USD\$6.9 million); and (iv) aviation (USD\$2.3 million) to continue over the next 5 years. Others are the Ha'apai Hospital by ADB at \$5.1 million that is still under procurement processes; Outer Island Renewable Energy project (OIREP) or Solar electrification by ADB of \$27.7 million; the World Bank Pacific Resilience Program of USD\$16.8 million is expected on stream in 2019; the Japan funded Nationwide Emergency Warning system at \$58 million aimed at improving communication; and the Nuku'alofa Network Upgrade Project (NNUP) that has secured NZD\$11 million and USD\$6.8 million from New Zealand and ADB and expected to start in 2018. The Youth Skills project will contribute to the upskilling of youth over the next five years is estimated at USD\$15 million.

In view of the need for developing and enhancing sporting activities and healthy lifestyle, a number of projects are in the pipeline to upgrade many sporting facilities in the country. An encouraging lead in this regard is the excellent performance of the Mate Ma'a Tonga (MMT) team during the Rugby League World Cup. The achievement of MMT was a historical event that united Tonga and all Tongans around the world. Government contributed to support our team. In addition, the work related to the Teufaiva Turf, approximately at NZD\$2 million, included the stadium which was completed in December 2017. However, the roof of the grandstand was ripped off by TC Gita in February 2018. Furthermore, sports equipment and facilities have been received from Japan.

During the financial year 2017/18, some of the high impact capital projects completed include the SGGB and the 'Taufa'ahau Tupou IV Domestic Wharf'. The completion of laying fibre optic cable to Vava'u and Ha'apai marked further expansion of existing communication infrastructure. The Ha'apai new Court House, Ha'apai Market, Ha'apai Reconstruction Project, Niuatoputapu Hospital, Refurbishment of Vava'u Ngu Hospital and the upgrade Ha'apai Niu'ui hospital also reflect expansion of existing health care infrastructure. In the education, the upgrade and refurbishment of TVET classrooms and facilities—Tonga College, Takuilau, Monfort dormitory, upgrade of GPS Havelu and Hofoa—and other projects signify efforts of government at improving the functionality of existing schools' infrastructure.

Government efforts at improving total factor productivity and promoting good governance for public servants was demonstrated with the first pay out under Performance Management System (PMS) rewards. The pay-out for 2016/17 was undertaken during the 2017/18 financial year. In the same vein, Office of the Ombudsman continues to address all grievances to ensure that good governance and the rule of Law are upheld.

Government also continues to support the private sector through the Government Development Loan (GDL) program, managed by the Tonga Development Bank. The program was re-opened in late 2017 after addressing highlighted issues for improvement. The refurbishment of Tanoa Hotel also helped in attracting more tourists and in hosting regional meetings and conferences in Tonga.

At the same time, concerted efforts been practice to combat NCDs thru imposing higher excise tax charges on fatty foods and sweetened drink, alcohol and tobacco. Government, together with support from development partners continue their efforts through numerous of projects to improve the nation's resilience to the implication of climate change and more importantly, contribute to the global efforts to reduce greenhouse gas emissions. In addition, power supply capacity from solar and wind farm is being expanded by Tonga Power limited (PTL).

4.2 Budget Strategy 2018/19 Priorities

The global, regional and domestic economy outlook discussed above, the GPA 2018-2021 and the response and recovery plan for TC Gita, all provide the foundation and direction for the country in the near and medium term. Also, having reviewed progress in Government Priority Agenda for 2017/18, there is no doubt that substantial stride have been made in different areas. Moreover, the challenges imposed on the country by TC Gita, the need to diversify the economy and formulate a growth resilient agenda, going forward, set the underlying tones for the GPA 2018-2021. These also inform the direction and theme for the Budget Strategy 2018/19. Therefore, government total budget for 2018/19 is focused on the following priorities areas:

Recovery Plan

1. Response continues to Recovery Plan for TC Gita from Development partners.

TC Gita left the country in a devastated situation with total amount of damage and loss of around \$356 million¹¹. Government and development partners responded by contributing around \$43 million in cash and in-kind for immediate response. Cabinet approved to allocate \$21 million in all clusters for assisting

	Damage	Losses	Total
Productive Sectors	54.88	138.47	193.35
Agriculture	5.1	92.38	97.48
Commerce and Industry	23.48	31.79	55.27
Tourism	26.3	14.3	40.6
Social Sectors	131.48	2.74	134.22
Housing	111.6	0.02	111.62
Education	19.78	2.17	21.95
Health	0.1	0.55	0.65
Infrastructure Sectors	22.46	6.08	28.54
Energy	13.41	3.73	17.14
Public and Community Buildings	5.47	1	6.47
Transport	2.32	0.76	3.08
Water, Health and Sanitation	1.26	0.59	1.85
Total	208.82	147.29	356.11

¹¹ Rapid Assessment Report by Government of Tonga, World Bank, ADB and UNDP.

respective sectors. With the need to establish concrete information on those who were affected, Government through the Statistics Department of Tonga conducted a survey to confirm all previous data collected from various clusters.

Housing sector was the most affected sector and has the highest level of damage and accounts for 61 percent of the total damage cost. This is followed by the tourism sector which accounts for 13 percent of the damage. The agriculture sector has the largest level of economic losses, which is estimated at 82 percent of total losses. The result from the Rapid Assessment was used to develop a Disaster Recovery Framework (DRF) that will help to guide and coordinate decisions on reconstruction over the next three years (until 2021).

Total recovery and reconstruction is estimated at \$326.8 million. Of this amount, \$73 million is required for immediate recovery (to June 30 2018), \$95.4 million is required for short-term recovery (2018/19) and \$158.4 million is required for medium-term recovery (2019/20-2020/21). The figures in this Disaster Recovery Framework are preliminary and sample-based, however, the needs identified are expected to be a fair representation of reality. With this significant undertaking, the Government and community resources are not enough to meet the recovery plan. Consequently, there is a funding shortfall for which Government is seeking assistance.

While preparing for recovery, Government has proposed a recovery package of \$107 million over three years while waiting for further assistance.

Distribution of the Recovery Funds by Donor 2018/19 - 2020/21				
	2018/19	2019/20	2021/21	Total
WB	10	10	0	20
ADB	4.5	4.5	4.5	13.5
NZD	12.78	5.6	5.6	23.98
EU	5.5	0		5.5
Total Cash	32.78	20.1	10.1	62.98
PRC	10	10		20
DFAT	3.78	3.78	3.78	11.34
Total In Kind	13.78	13.78	3.78	31.34
Total	46.56	33.88	13.88	94.32
TC Gita Response Fund	13			13
Grand Total	59.56	33.88	13.88	107.32

In terms of implementation, government has a structure for the coordination of recovery activities, led by the National Emergency Recovery Committee (NERC) under the Emergency Management Act 2016. The NERC and MEIDECC are responsible for the intermediate and short-term recovery that is for the first three months till June 2018, mainly for policy direction and oversight of the recovery. The Minister of MEIDECC has the responsibility under this structure to provide overall coordination, implementation and monitoring of the Disaster Recovery Framework (DRF) on behalf of the Clusters. That is the line Ministries taking the lead role in the development, implementation and monitoring of programs that fall within their portfolios via the Cluster arrangements.

Recovery Programs, developed by responsible ministries with the support of the Clusters, will be implemented in a number of ways, including new initiatives and reorientation or adaption of existing Programs. It will be important to make a smooth transition from these relief and early recovery activities to the larger Recovery Programs

The Recovery Framework and programs, while implemented under the government's leadership, will be carried out in close and collaborative partnership with international donors, the private sector, civil society and the community as a whole. That is in view of the fact, that achieving recovery will be a joint effort between the public and private sectors, non-governmental organizations (NGOs) and the wider community.

The Government recognizes the critical importance of keeping those affected by TC Gita well informed of progress and targets in the recovery activities and ensuring that program beneficiaries can access necessary information through popular media channels. The Communications Strategy will set out how the community will be engaged in, and consulted about, recovery activities – particularly those activities that will impact them. For example, housing and public building repairs and reconstruction efforts or social protection payouts.

MEIDECC (and subsequently MOFNP in FY2020 and FY2021) will review and report publicly on the implementation of the DRF, recovery programs and progress towards milestones. Reporting will show where outcomes are, or are not, being achieved and where conditions have changed – for example, because knowledge has changed or there is another disaster event.

Macroeconomic stability and Fiscal management

2. Allow prudent recurrent budget deficits to be financed from reserves to assist with the recovery.
3. Maintain staff cost at no more than 53 percent of Domestic revenue (currently is 52 percent in 2017/18).
4. Continue to maintain nominal external debt below 50 percent of GDP and confine external borrowing to highly concessional loans and no net new domestic borrowing.
5. Maintain domestic revenue collection at least above 22 percent of GDP.

Social Development: health and quality of education

6. Maintain Education as largest recipient of recurrent budget and increase Grants to Mission schools (by \$7 million).
7. Maintain Health as the second largest recipient of recurrent budget (NCD, CD and UHC).
8. Greater collaboration and partnership among relevant MDAs (MOH, MPFS, MOJP and MIA), NGOs and communities to better address social issues (alcohol drugs).

Government will continue to implement all policies and programs initiated in 2017/18.

The development budget allocation for 2018/2019 is \$6.3m of which 1.6m is for medical experts and overseas treatment, \$2.7m for Tonga Health Support System (Phase II), \$1.3m for WHO training, \$0.8m for UNFPA training, \$0.04m for Fiefia sports supported by Tonga Health Promotion. Recovery needs for the water, health and sanitation sector are estimated at \$6.31 million and DFAT has offered to assist the WASH cluster, in addition to the WASH cluster funds that were approved during the response phase.

The Development Budget estimates for 2018/19 is \$18.9 million, with \$1.6 million estimate for the Tonga Education Support Activity (TESA), \$3.5 million for skills development programme of PREP (AF). Maintenance Primary Schools of \$2 million, \$9.8 million for regional scholarships and in-country scholarships and \$1.2 million for grant assistance to mission's schools. There is also an immediate action required on major education infrastructure after TC Gita so that classes could return to permanent facilities as soon as possible, with minimal disruption to student's education. MFAT, DFAT and World Bank have offered their assistance for recovery purposes of approximately \$14.6 million for 2018/19.

Private Sector Development, Agriculture & Fisheries, Manufacturing and Tourism

9. Improve and enforce relevant policies, legislation and regulations to create a more facilitating and conducive environment for private sector led businesses, that also encourages the development of indigenous owned businesses (Agriculture & Fisheries, Manufacturing and Tourism).

Climate change resilience and renewable energy

10. Improving public investment in and management of public infrastructure (transport, buildings and public utilities).
11. Building climate change resilience into all government investment and activities including renewable energy.

An allocation of \$26.2m to finance the climate change resilience and renewable energy projects is in the budget estimates for 2018/19. This funding include two major projects proposals lined up to be submitted to the Green Climate Fund (GCF) board for approval and implemented in early 2018/19. These projects are the Tonga Renewable Energy Project (TREP) with total cost of USD\$53 million, and the Coastal Protection project cost at USD\$50 million. It also includes the Government of Japan two major projects namely the Nationwide Early Warning System worth around USD\$26.5 million, and Installation of Winds Power Generation System in Niutoua for around USD\$20 million.

Government also aims for more climate change resilience and renewable energy project proposals to be submitted to Green Climate Fund (GCF) to meet its target for a Resilient Tonga by 2035.

Continue the partnership with development partners on their forward aid programs

12. Continue to improve aid effectiveness and partnership with development partners on improving forward aid programs.

5 GOVERNMENT BUDGET: FUNDING THE OUTPUTS

5.1 Government of Tonga Recurrent Budget

Budget Performance 2017/18

An overall cash surplus of \$3.7 million is projected for 2017/18, compared to an original estimated surplus of \$0.6 million surplus for 2017/18, and \$29.9 million surplus achieved in the previous year 2016/17. The anticipated surplus is due to a front-loading of World Bank budget support of \$20.2 million. But for this front-loading, the situation would have been for a deficit of \$16.5 million at the end of 2017/18.

Table: Government "Recurrent Budget"

	Actual 2016/17	Budget Estimate 2017/18	Revised Estimate 2017/18	Budget Estimate 2018/19	Projection 2019/20	Projection 2020/21
Budget Revenue (Total Recurrent Receipts)	292.6	345.1	307.6	355.1	342.6	352.3
Total Domestic Receipts	254.8	310.7	276.2	311.7	308.1	317.9
Domestic Revenue	239.8	280.9	258.2	290.2	289.7	301.0
Transfers & Bond Receipts	15.0	18.7	17.1	20.5	17.4	15.6
Revolving Fund Receipts	0.0	11.1	0.9	1.0	1.0	1.3
Budget Support	37.8	34.4	31.4	43.5	34.4	34.4
Budget Expenditure (Total Recurrent Payments)	262.7	344.6	303.9	366.0	349.5	351.5
Operating Expenditure	233.4	307.1	268.5	319.0	303.2	306.2
Established & Unestablished Staff	124.9	148.0	137.2	154.9	154.4	153.9
Purchase of Goods & Services	33.4	42.2	43.0	43.2	42.9	42.9
Other Operating Expenditures	75.1	116.9	88.3	120.9	105.8	109.4
Other Expenditure/ Payments	29.3	37.5	35.4	47.0	46.3	45.3
Cash Deficit/ Surplus	29.9	0.6	3.7	(10.8)	(6.9)	0.8

Source: MOFNP

Although the actual budget performance to date (July-February 2017/18), reflects tax receipts of \$18.8 million or around 10 percent higher than what was collected the same period last year, only 63 percent of the original estimate has been collected, compared to 70 percent performance of the previous financial year. Furthermore, the performance for the remaining months (March-June) of the financial year 2017/18 is expected to weaken in comparison to the original estimates, due to the fiscal pressure in response to TC Gita. Hence a short-fall in tax receipts by around \$17 million is anticipated. As part of the TC recovery plan, exemptions from CT on imports, import duties and excise taxes on imported goods related to TC Gita immediate recovery responses, such as on food, clothing, tents, tools etc. are being granted.

In line with anticipated tax revenue shortfall, the level of spending by MDAs are expected to be tightened, and may very well fall below the original estimates. MDAs have been asked to re-prioritize existing programs and shift their focus on the immediate Gita-related recovery responses.

2018/19 Recurrent Budget and the Medium Term

Total recurrent budget of \$366.0 million is estimated for 2018/19; an increase of \$21.4 million or 6 percent over the original estimate in 2017/18. This is also 20 percent higher than the revised estimate in 2017/18. Operating expenditures/payments for 2018/19 is projected to be \$319.0 million; a 4 percent or \$12.0 million increase from the original estimate in 2017/18 and up by \$50.5 million from the revised estimate in 2017/18. This significant increase in next financial year's budget mainly includes increased allocation to the education sector—increased grant for non-government secondary schools, up by \$7 million, or from \$300/head to \$700/head. In addition, government is allocating funds for TC-Gita post reconstruction works of \$19 million, as well as the

commencement of the repayment of the principal amounts on the China EXIM loan, and other initiatives for implementation in 2018/19.

Total recurrent revenue for 2018/19 is projected to increase to \$355.1 million; by \$10 million over the current financial year's original estimates. This is also \$37.5 million or 12 percent higher than the revised estimate for 2017/18. The 2018/19 projection is based on assumptions of recovery in tax revenue collection, when the TC-Gita related tax exemptions of 2017/18 ends (early in 2018/19). Additional expectations are for increased economic activities and government economic initiatives that help facilitate an improved business environment for the development of the private sector. Furthermore, the anticipated budget support receipts is expected to increase by \$9 million, mainly reflecting the influx of funds from World Bank's Crisis Response Window of \$20 million.

Modest positive growth in domestic revenue is also projected for the medium term; on an average of 2 percent per annum. This will contribute towards government's efforts in 2018/19 in funding its efforts towards reconstruction and recovery efforts post TC-Gita and initiatives under the Government Priority Agenda 2018/19 – 2020/21. At the same time, the crucial role of budget support comes to fore in this regard; while government recovers its domestic revenue collection momentum, donor's support continues to supplement. For instance, without the anticipated \$43.5 million budget support in 2018/19, the deficit would have worsened to \$54.3 million for the same year. This in turn, impacting government's reserves negatively and imposing spending pressures on ever competing priority areas.

Domestic revenue increased over the period 2016/17 through 2018/19, an indication that fiscal condition in the country is somewhat improving. Factors in these are the improvement in domestic tax revenue collection, having taken into consideration the tax revenue forgone from tax exemptions related to recovery-response imports, strengthened tax administration, and further review and widening of non-tax revenue base. There is no doubt that enhanced tax and non-tax revenue collection in the country is needed in near to medium term given anticipated rise in Government operational expenditure. The commencement of the TC-Gita recovery reconstruction works, repayment of principal on borrowing from the China EXIM loan, amongst others, are major leap in expenditure expected in the near term. All these call for a rebalancing of domestic revenue vis a vis prudent expenditure management in the near to medium term.

Total spending on public servants' remuneration over the medium term is anticipated to be maintained below the fiscal ratio of 53 percent as part of Government's fiscal consolidation measures to minimize public wage bill. This implies that Government continues its commitment in 2018/19 to strictly implement the recently approved human resource policy to freeze appointment and cap wage bill. This policy will ensure that resources are available to assist MDAs' operational votes.

Despite the fact that Government is the main formal employer in the country, its ability to, and the affordability of public goods and services in the medium term requires serious consideration going forward. This not only ensures that citizens receive quality service at all times, but Government is also able to meet debt sustainability requirements. As such, highlighted below are details of recent human resource policy approved to control Government's overall wage bill:

- Establishment of the Joint Sub-committee (PSC and Ministry of Finance) for vetting any new staff proposals towards recommending posts that are only deemed 'critical';
- No new permanent staff recruitment in 2018/19 except for returning scholars, resultant vacant positions and approved critical positions recommended by the Joint Sub-committee;
- PSC to continue reviewing recruitment processes in all MDAs;

- PSC and the Remuneration Authority to undertake a review of the cost of living and advice the Ministry of Finance with a view to appropriately align remuneration with current economic fundamentals;
- PSC to continue its work towards placing all Deputy CEOs positions in the public service on contractual appointments.
- Review existing policy for the recruitment of daily paid positions

Domestic risks mainly relate to fiscal sustainability, which may be compromised should public sector employment reforms fail to contain wage growth, or grant disbursements and related infrastructure building be delayed. A potentially large burden on fiscal expenditure could result from costs of future natural disasters, especially if donor intervention falls short. On the upside, a higher-than expected short-term fiscal expansion may provide a boost to GDP growth.

In an effort to further control public expenditure in the medium term, a process has been established under Ministry of Finance and National Planning for managing any new-vehicle requests. This requires that MDAs submit proposal(s) to the Ministry for assessment and approval. Another cost-effective measures include the option of re-distributing existing vehicles between line ministries, while MDAs are mandated to have regularly updated and completed asset registers. When finalized, outcomes will allow for proper monitoring of future purchases and disposal of assets. In the same vein, given additional expenses that MDAs incur in the maintenance of assets—fuel, spare parts, maintenance and repair, salaries and wages—Government will in due course, put in place an insurance policy for its assets. This is to ensure sustainability and minimize maintenance and replacement costs in the medium-term.

Cash Budget Surplus/Deficit in the Medium Term

The estimated cash budget balance for 2018/19 is a deficit of \$10.8 million that will be financed from Government reserves. The decrease over the revised estimates results mainly from: (i) additional budget allocation for the TC Gita reconstruction works of \$19 million, (ii) commencement of the repayment of the China EXIM principal loan amounts, and (iii) \$7 million increase in the grant allocation for non-government secondary schools. Despite increases in the highlighted major operating expenses, Government efforts aimed at improving the business environment and enhance economic activities in the country will further strengthen its ability to mobilise domestic revenue—widening of tax and non-tax revenue base.

In the medium-term, the cash balance is expected to result in another deficit for 2019/20, but at a lesser amount than in 2018/19 at \$6.9 million; prior picking up to a minimal cash surplus in 2020/21 of \$0.8 million.

Total Recurrent Budget by Ministry/Departments/Agencies (MDAs)

The Government of Tonga budgeted for 25 MDAs in 2018/19. These allocations are based on the initiatives and priority areas that are highlighted in the TSDF II and Government Priority Agenda 2018-2020 and contribute to the national vision of a *“more progressive Tonga supporting higher quality of life for all.”* All government’s activities are also designed enhance private sector development, facilitate the operation of major productive sectors of the economy—primary, secondary and tertiary sector—the construction of sports facilities, maintenance of roads, etc. These are also incorporated in the recurrent budgets of MDAs. Additionally, the reconstruction and recovery after TC Gita was also incorporated into government’s recurrent budget for the next fiscal year.

MDAs Allocation (Expenditure, \$m)

Ministry	2016/17 Provisional Actuals	Budget Estimate 2017/18	Revised Estimate 2017/18	Budget Estimate 2018/19	Projection 2019/20	Projection 2020/21
Palace Office	3.6	4.9	4.9	4.8	4.8	4.8
Legislative Assembly	7.0	7.9	7.4	10.2	10.1	10.1
Tonga Office of the Auditor General	1.8	1.9	1.3	1.9	1.9	1.9
Commissioner of Public Relations	1.3	1.7	1.4	1.8	1.8	1.8
Ministry of Foreign Affairs	9.8	10.9	10.6	10.6	10.5	10.5
His Majesty's Armed Forces	9.1	9.6	9.6	9.8	9.7	9.7
Prime Minister's Office	2.3	3.9	3.5	3.7	3.7	3.7
Ministry of Finance & National Planning	67.3	101.3	71.7	105.6	90.3	93.1
Ministry of Revenue & Customs	6.8	12.3	11.9	10.1	10.1	10.1
Ministry of Public Enterprises	1.3	1.6	1.2	1.6	1.6	1.6
Ministry of Commerce, Consumer, Trade, Innovation	4.1	7.3	7.1	7.7	6.5	6.5
Ministry of Justice	5.1	10.1	10.0	11.2	10.9	10.3
Attorney General's Office	2.0	3.0	3.8	3.3	3.3	3.3
Ministry of Police, Prisons & Fire Services	15.0	12.4	11.0	12.4	12.4	12.4
Ministry of Health	35.8	38.9	38.5	42.8	41.2	41.2
Ministry of Education & Training	45.2	52.6	48.6	57.7	57.7	57.7
Ministry of Internal Affairs	7.7	10.0	9.6	9.3	11.7	11.6
Ministry of Agriculture, Food & Forests	7.5	8.2	8.2	10.8	10.8	10.8
Ministry of Infrastructure & Tourism	12.9	20.2	19.5	22.8	22.8	22.8
Ministry of Lands, Survey & Natural Resources	4.0	4.7	4.4	4.9	4.9	4.8
Public Service Commission	1.5	1.8	1.7	2.1	2.1	2.1
Statistics Department	2.9	3.3	3.2	3.4	3.4	3.4
MEIDECC	6.2	7.3	6.7	8.3	8.1	8.1
Ministry of Fisheries	2.8	3.7	3.6	4.3	4.3	4.3
Ministry of Tourism	-	5.0	4.4	5.0	5.0	5.0
Grand Total	262.7	344.6	303.9	366.0	349.5	351.5

Source: MOFNP

Government allocates its recurrent budget to its 25 MDAs. The Ministry of Education and Training (MET) remains as the largest recipient of government's recurrent budget in 2018/19, with a total of \$58.7 million. The Ministry of Health (MOH) remains as the second largest share in government's budget with approximately \$42.8 million. The majority of the budget allocation for MET and MOH in 2018/19 are for salaries; approximately \$34.1 million or 58 percent and \$28.9 million or 68 percent respectively. Allocation for their operations on the other hand are \$26.6 million or 42 percent and \$13.9 million or 32 percent correspondingly.

Total Recurrent Budget by Category, 2016/17 – 2018/19

Revenue by Category

In the current fiscal year, it is anticipated that government will collect \$307.6 million from taxes and non-tax revenue. This is an increase of 5 percent compared to the actual estimate of \$292.6 million in 2016/17. In the Tax Category component table below, the main sources of government's domestic revenue in 2017/18 is tax. Other sources of recurrent revenue are non-tax such as dividends, fines, interest, foreign exchange levy, rental, fees, etc. Table below shows that total tax revenue is expected to decrease by 7.4 percent from the initial projection in 2017/18; due to the exemptions granted on CT for consumption goods and construction materials after TC Gita.

Tax Category component (\$m)						
Revenue	2016/17 Provisional Actuals	Budget Estimate 2017/18	Revised Estimate 2017/18	Budget Estimate 2018/19	Projection 2019/20	Projection 2020/21
Income Tax	46.1	38.1	40.0	45.4	43.4	45.4
Trade Taxes	19.9	26.3	20.0	27.4	28.4	29.4
Taxes on Goods & Services	83.4	96.9	91.7	93.7	94.7	96.5
Excise Taxes	57.3	67.8	60.3	70.9	72.9	74.7
Grand Total	206.6	229.0	212.0	237.2	239.2	245.8

Source: MOFNP

The tax category component table above details the various types of tax revenue collected by government. In 2017/18, total tax revenue is revised downward by 7.4 percent to \$212 million, below what was anticipated in the last budget due to a decline in taxes on goods and services, trade and excise taxes.

Taxes on goods and services is projected to decline further in the current financial year by 5.4 percent. This is due to the tax exemption on goods such as clothes, food and construction materials for those affected by TC Gita. Despite incentives provided by government to support private sector growth and sustainability, the reduction in consumption tax as a result of tax exemptions may substantially offset expected increases in consumption from enhanced economic activities projected for 2018/19. Strict monitoring of consumptions tax exemption is therefore an important task for the Ministry of Revenue and Customs (MORC), going forward.

Import and excise duties are estimated at around \$60.3 million in the current financial year compared to an actual amount of \$57.3 million in 2016/17. Charges on import are also projected to escalate in line with increased tariffs on tobacco and alcohol products. Worthy to note, the movement of goods between fiscal years compromise all the previous attempts to forecast accurate data for the revenue profile of tobacco suppliers. Anecdotal evidence suggests that suppliers tend to shift purchases forward to avoid increased tax payments.

The outlook for outer years indicate that the collection from tax revenue will pick up; on the assumption that everything returns to normal, pre-TC Gita levels. Additionally, an x-ray machine and ballet scanner to scan containers and box cargo at Queen Salote Wharf will be installed in 2018/19, funded by The Republic of China to increase security. The scanners will help the MORC, when in doubt of the content of boxes/containers, to open the container for inspection. The installation of the scanner will further strengthen implementation of Tonga's Customs Regulation and contribute to improving administration, enforcement and compliances.

Total recurrent revenue in 2017/18 is classified into 9 categories. Tax revenue was highest at \$212 million— income tax, trade tax, taxes on goods and services, and exercise taxes. This is followed by non-tax revenue \$95.6 million which comprise fees and charges, entrepreneurial and property income, capital and other transfers, and budget support.

Revenue Category (\$m)

Revenue	2016/17 Provisional Actuals	Budget Estimate 2017/18	Revised Estimate 2017/18	Budget Estimate 2018/19	Projection 2019/20	Projection 2020/21
Income Tax	46.1	38.1	40.0	45.4	43.4	45.4
Trade Taxes	19.9	26.3	20.0	27.4	28.4	29.4
Taxes on Goods & Services	83.4	96.9	91.7	93.7	94.7	96.5
Excise Taxes	57.3	67.8	60.3	70.9	72.9	74.7
Fees & Licences	21.8	31.5	27.7	31.1	29.8	32.9
Entrepreneurial & Property Income	11.4	20.4	18.5	21.9	20.7	22.3
Miscellaneous Revenue Items	3.7	3.0	2.7	3.7	4.7	7.7
Capital & Other Transfers	25.0	31.6	14.5	16.8	12.7	7.9
Donor Support	24.2	29.6	32.3	44.5	35.4	35.7
Grand Total	292.6	345.1	307.6	355.1	342.6	352.3

Source: MOFNP

Non-tax revenue without budget support is expected to increase slightly by 2 percent in 2017/18 compared to the previous year. The collection of fees and charges, entrepreneurial and property income accounts for the improvement. In addition to this is the uncertainty in receiving budget support from development partners, especially the European Union. The fees from motor vehicle registration is estimated at around \$27.7 million in 2017/18, an increase by 27 percent from the provisional actual for 2016/17. This reflects continuing growth in number of imported vehicles. An actual amount of \$21.8 million was collected from this source in 2016/17.

Expenditure by Category

Total recurrent expenditure in 2018/19 is estimated at \$366 million, representing \$21.4 million or 6.2 percent more than the original estimate in 2017/18. The recurrent expenditure is classified into 13 categories (10 to 22). Remuneration (including categories 10, 11 and 19) is projected to account for most of recurrent expenditure (46 percent) in 2017/18. Remuneration also accounts for the most part in 2017/18. It is anticipated to slightly decline in the next financial year. Total actual recurrent expenditure in 2016/17 was \$262.7 million.

Recurrent expenditure/payments estimates are based on:

-  TC Gita recovery reconstruction will start in 2018/19;
-  Debt repayment costs increase by around \$14 million in 2018/19 from \$29 million in 2017/18, mainly due to the principal repayment of the China Loan;
-  Increase in school grants to mission schools by \$7 million.
-  No new staff proposals on top of the existing salaries envelope, but maintain the existing budget for the approval of critical positions and recruitment of existing vacancies only.

Few priority areas listed below are chosen by Government as its focus for spending in 2018/19 and the medium term.

- a. Road maintenance of \$6.4 million in 2018/19; to provide for all outstanding road maintenance in Tongatapu and the outer islands.
- b. Subsidies for non-government secondary schools will increase by \$7.0 million in 2018/19 (an increase from \$400/head to \$700/head) to cover the contribution provided by the Governments of New Zealand and Australia. The contributions by NZ and Australia are expected to be terminated in 2017/18.

- c. Primary and Secondary School buildings maintenance of \$2.1 million in 2018/19. This is intended to clear out all outstanding maintenance works from previous financial years. This amount will be maintained throughout the two outer years.
- d. Government provided \$19 million in 2018/19 as a recovery response-related to TC Gita. This will cover for the reconstructions of residents and government office buildings that were affected during TC Gita.
- e. Purchase of goods and services for all MDAs to increase by 14 percent to \$25.5 million in 2018/19 and expected to remain the same in the outer years.
- f. Establishing of new offices in every constituency and fully staffed and equipped to improve development of the communities and in order to monitor and evaluate the projects that are financed from Constituency Funds. Government has allocated \$2.4 million in its recurrent budget to initiate this proposal.
- g. A foreign debt repayment cost is estimated to increase to \$17.8 million in 2018/19 and remain fairly stable in the two outer years at \$16.3 million.

Total Recurrent Budget by Location

Total Recurrent Budget by Location (\$m)

Location	2016/17 Provisional Actuals	Budget Estimate 2017/18	Revised Estimate 2017/18	Budget Estimate 2018/19	Projection 2019/20	Projection 2020/21
Nationwide	65.7	105.0	74.5	114.9	93.9	91.2
Tongatapu	163.3	196.6	190.3	212.0	216.4	221.1
Vava'u	12.7	15.7	14.1	15.0	15.1	15.1
Ha'apai	6.9	8.5	7.8	7.7	7.8	7.8
Eua	3.9	6.8	6.4	5.6	5.6	5.6
Niua Toputapu	1.6	2.0	1.7	1.8	1.8	1.8
Niua Fo'ou	1.3	1.6	1.4	1.4	1.3	1.3
Overseas	7.4	8.4	7.7	7.6	7.5	7.5
Grand Total	262.7	344.6	303.9	366.0	349.5	351.5

Source: MOFNP

The Total Recurrent Budget by Location Table above illustrates the recurrent expenditure across the island groups of Tonga in 2016/17 to 2017/18 and in the medium term. The table highlights the fact that Tongatapu continues to be the largest proportion of recurrent expenditure mainly because of its higher population as well as the volume of economic activities compared to the rest of the islands. Vava'u is the second largest recipient of the recurrent budget, while Ha'apai and the rest of the islands receive theirs depends on population.

Expenditure Measures and Revenue Reforms in 2018/19

Expenditure Measures

Government allocates its recurrent budget based on its current priorities set out in GPA 2018-2021 and well justified in MDAs corporate plans. However, in the next fiscal year, there is no scope for new initiatives, except the TC-Gita recovery response-related activities that start in 2018/19. During the budget preparation and negotiations, operational expenditure, especially on staff cost is cut back, and/or domestic revenue increased. Both the former and latter are significant in achieving the ratios set out in our fiscal consolidation targets.

Government will look into managing its finances and to reserve any excess revenue for payment of past public debts starting in 2018/19 when the repayment of the Chinese loan starts. In a prudent fiscal environment, revenue collections higher than original forecast are best set aside to smooth out the future costs of debt servicing. Debt repayment costs are to increase by around \$14 million in 2018/19 from \$29 million in 2017/18, mainly due to the principal repayment of the China loan.

In 2018/19, Tonga will increase its grants to mission schools—an increase in its recurrent budget by \$7 million. This will help to improve teacher's salaries in these schools and curriculum development. Currently the grants is \$400/head and expected to increase to \$700/head in 2018/19. Finally, there will be no new staff proposals on top of the existing salaries envelope; MDAs are to maintain the existing budget for the approval of critical positions and recruitment for existing vacancies only.

Revenue Reforms

The current administration expects a more broad revenue base that facilitates the collection of domestic revenue to assist in financing of its priorities in the medium term with no option for additional borrowing. Some of the revenue reforms are currently ongoing such as excise tax on alcoholic and tobacco and NCDs related goods to promote healthy lifestyle for Tongans. Other reforms are listed below.

- Import duty and tax concessions to support public (domestic) air and sea transport industry. Any import duty and consumption taxes imposed on aircrafts and aircraft parts imported by a licensed public domestic airline operator are exempted. Additionally, vessels and vessel parts imported by a licensed public domestic sea transport operator, the import duty and consumption taxes imposed are exempted.
- Receipt of donations in support of Tropical Cyclone Gita and existing duty and tax exemptions
 - Imports consigned to the National Emergency Management Office for the implementation of its functions under Section 7 of the Emergency Management Act 2007 shall be exempted from consumption tax.
 - Clothing tools or food imported by or on behalf of persons affected by an emergency as defined under the Emergency Management Act 2007, and certified by the Manager of the National Emergency Management Office and the Chief Executive Officer for Revenue and Customs, shall be exempted from consumption tax if imported within 6 months of the emergency occurring.
 - Replacement tools, equipment, building materials, furniture and furnishings, vehicles, boats, or machinery imported by or on behalf of persons or businesses affected by an emergency as defined under the Emergency Management Act 2007, and certified by the Manager of the National Emergency Management Office and the Chief Executive Officer for Revenue and Customs, shall be exempted from consumption tax if imported within 2 years of the emergency occurring.

➤ Foreign Exchange Levy

- A proposed modification to Foreign Exchange Levy to continue ceaselessly.

➤ Other revenue adjustment

Various number of revenue reform that is ongoing including the enforcement of arrears collection. Additionally, an x-ray machine and ballet scanner to scan containers and box cargo at Queen Salote Wharf will be installed in 2018/19 funded by The Republic of China to increase security. The scanners will help the MORC, when suspicious of the content, opens the container for inspection. The installation of the scanner will also solve requirement of the Tonga's Customs Regulation which contributes to improving the administration, enforcement and compliances. On the other hand, MOFNP is planning to recruit a consultant to assist the ministry in reviewing of fees and charges.

Recurrent Budget by TSDF Pillar

Government Recurrent Budget 2017/18-2018/19 Grouped by TSDF II Pillars and Organizational Outcomes (T\$m)			
TSDF II Pillars	Budget Estimates 2017/18	Budget Outturns 2017/18	Budget Estimates 2018/19
Economic Institution	73.8	68.5	81.7
1.1 Improved macroeconomic management and stability with deeper financial markets	46.2	42.6	57.0
1.2 Closer Private Public Partnership for Economic Growth	6.0	5.7	6.6
1.3 Strengthened business enabling environment	11.2	10.1	6.8
1.4 Improved public enterprise performance	1.2	1.1	1.3
1.5 Better access to and use of overseas trade and employment and foreign investment	9.1	9.0	10.1
Social Institution	129.6	124.2	138.3
2.1 Improved collaboration with and support to civil society and community groups	5.1	4.9	5.4
2.2 Closer Partnership between Government, Churches & Other Stakeholders for community development	1.9	1.7	1.9
2.3 More appropriate Social & Cultural Practices	5.2	5.2	5.2
2.4 Improved Education & Training Providing Lifetime Learning	51.4	47.5	56.6
2.5 Improved Health Care and Delivery Systems	33.4	33.4	35.5
2.6 Stronger integrated approaches to address both communicable & non - communicable diseases	9.0	8.5	9.8
2.7 Better care & support for vulnerable people, in particular the disabled	14.3	12.3	13.2
2.8 Improved collaboration with the Tongan diaspora	9.2	10.8	10.9
Political Institution	77.7	73.1	95.4
3.1 More Efficient, Effective , Affordable, Honest, Transparent & Political Public Service focus on clear priorities	34.5	28.6	50.7
3.2 Improved Law & Order and Domestic Security appropriately applied	20.5	19.1	21.2
3.3 Appropriate decentralization of government admin with better scope for engagement with the public	1.3	1.2	1.5
3.4 Modern & Appropriate Constitution, laws & regulation reflecting international standard of democratic of democracies processes	4.6	5.4	4.9
3.5 Improved working relations & coordination between Privy Council, executive, legislative & judiciary	3.1	2.8	3.7
3.6 Improved collaboration with development partners	0.5	0.4	0.6
3.7 Improved Political and Defense Engagement within the Pacific and the rest of the World	13.1	15.7	12.8
Infrastructure & Technology	53.9	29.3	40.3
4.1 More reliable and affordable energy services	1.1	1.0	1.2
4.2 More reliable , safe , affordable transport services	17.3	15.2	12.1
4.3 More reliable , safe & affordable information and Communication Technology used in more innovative	1.0	0.8	1.2
4.4 More reliable , safe & affordable, building and other structures	30.3	8.4	20.2
4.5 Improved use of research & development focussing on priority needs based on stronger foresight	3.9	3.7	5.3
4.6 More reliable, safe, affordable water supply and control, and sanitation services	0.3	0.2	0.3
Natural Resources & Environment	9.5	8.8	10.3
5.1 Improved land use planning & management for private and public spaces	2.7	2.4	2.6
5.2 Improved used of natural resources for long term flow of benefits	1.6	1.5	1.9
5.3 Cleaner environment with improved waste recycling	0.8	0.8	0.9
5.4 Improved resilience to natural disasters and impact of climate change	4.4	4.2	4.9
TOTAL	344.4	303.9	366.0

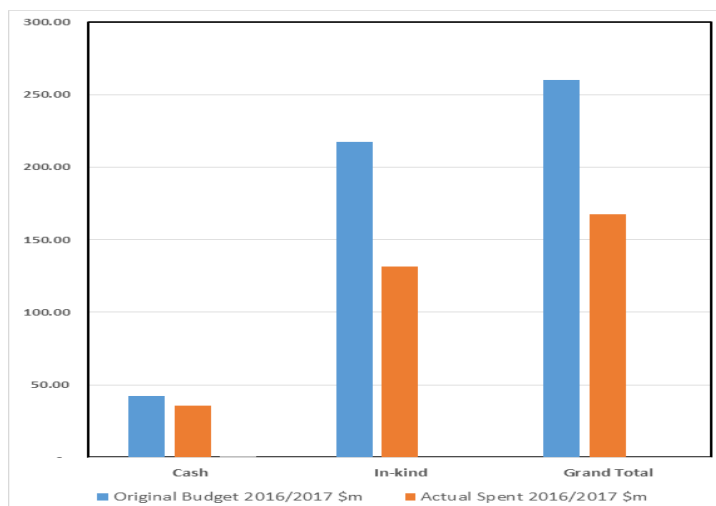
5.2 Government of Tonga Development Budget

Development Budget 2016/17 Performance

The total development budget for 2016/17 was \$259.8 million, of which \$42.4 million or 16 percent of the total budget estimated was estimated to be provided directly to Government through the Treasury or so called “cash” as reflected in most tables in this section. At the end of the financial year, a total of \$35.6 million was spent as at 30th June, 2017. Of the \$259.8 million, it was estimated that \$217.4 million or 84 percent of the total estimated budget will be received and spent as in-kind. On the 30th of June 2017, a total of \$129.7 million was spent. This can be interpreted as an overall 64.4 percent delivery or output on the development budget for 2016/17.

Type of funding	Budget 2016/17 \$m	Actual Spent 2016/17 \$m	Budget Est. 2017/18 \$m	Est. Outturn 2017/18 \$m	Budget 2018/19 \$m	Projection 2019/20 \$m	Projection 2020/21 \$m
Cash	42.4	35.6	37.9	28.4	110.8	75.1	63.1
In-kind	217.4	129.7	213.4	135.96	182.5	228.4	159.5
Grand Total	259.8	165.3	251.3	164.3	293.3	303.4	222.6

Some of the difference between the estimates and actual results for financial year 2016/17 can be attributed to the slow implementation of on-going programmes due to limited staff capacities in implementing agencies including limited understanding of processes and procedures of both government and donors and poor planning during the preparation of the projects. This has been identified and as a way forward, the Ministry has scheduled to undertake training and awareness programs to MDAs to assist with improved implementation.



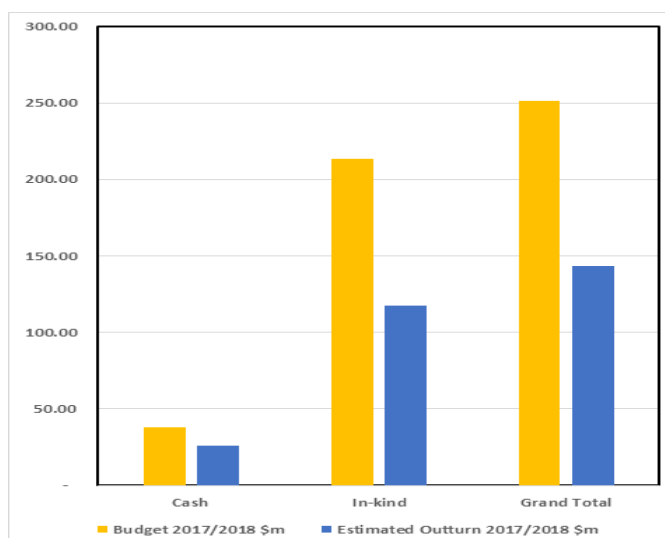
Another major issue that contributes to the large difference between the budget and outturn is the inclusion of unconfirmed projects. For the 2016/17 development there were 61 unconfirmed projects. They are unconfirmed as they do not have identified a donor and therefore highly unlikely to receive funding or proceed to implementation.

Hosting of the Pacific Games 2019 was one of the priorities of government since approval was received in 2013. As such, development partner's support was channelled towards this priority over the period from 2013 to 2017. Moreover, cancellation of hosting was announced by government in May 2017, prompting development partners together with government to re-prioritize support.

Development Budget 2017/18 Performance

The estimated budget for 2017/18 was \$251.3 million, of which \$37.9 million or 15 percent was estimated to be provided directly to Government through the Treasury or in cash and \$213.4 million or 85 percent as in-kind. At the end of the financial year, a total of \$28.4 million of the cash budget and \$136 of the in-kind budget are expected to be spent. These represent an overall 64 percent delivery or output on the development budget for 2017/18.

Similar to previous years, there were 80 unconfirmed projects that are yet to have any donor funding. These further inflated the estimates.



Following TC Gita, reprioritisation was necessary but mostly in the recurrent budget. Only development budget affected are projects that had components redirected towards the response and recovery efforts. One project in particular is the Pacific Resilience Project (PREP) funded by World Bank which has a specific component called the Contingency Emergency Response Component (CERC) with USD\$0.5 million available to support the response phase. Furthermore, an additional USD\$1.2 million can be redirected to support the response and recovery phase.

Development Budget 2018/19 – 2020/21

Type of Funding	Budget 2016/17	Actual 2016/17	Budget 2017/18	Est. Out. 2017/18	Budget 2018/19	Proj. 2019/20	Proj. 2020/21
	\$m						
Cash	42.40	35.64	37.89	28.38	65.00	54.97	53.01
TC Gita Response					13.00		
TC Gita Recovery					32.78	20.1	10.1
Total Cash					110.78	75.07	63.11
In-kind	217.40	129.68	213.36	135.96	168.75	228.37	159.46
TC Gita					13.78	13.78	3.78
Total In Kind					182.53	228.37	159.46
Grand Total	259.80	165.32	251.25	164.34	293.32	303.44	222.57

The 2018/19 development budget is estimated at \$293.3 million. This consists of \$110.8 million cash and \$182.5 million in-kind. Prior to TC Gita, the 2018/19 development budget was estimated at \$233.8 million, the difference being the TC Gita Recovery efforts

Following TC Gita, the estimated recovery fund expected is approximately \$107.3 million, over the next three year; that is \$59.5 million for 2018/19, \$33.9 million for 2019/20 and \$13.9 million for 2020/21. Figures are subject to change pending on the receipt of the finalisation of the DRF, tentatively scheduled to be completed in early May 2018 and completion of negotiations and approval by our respective development partners. Given

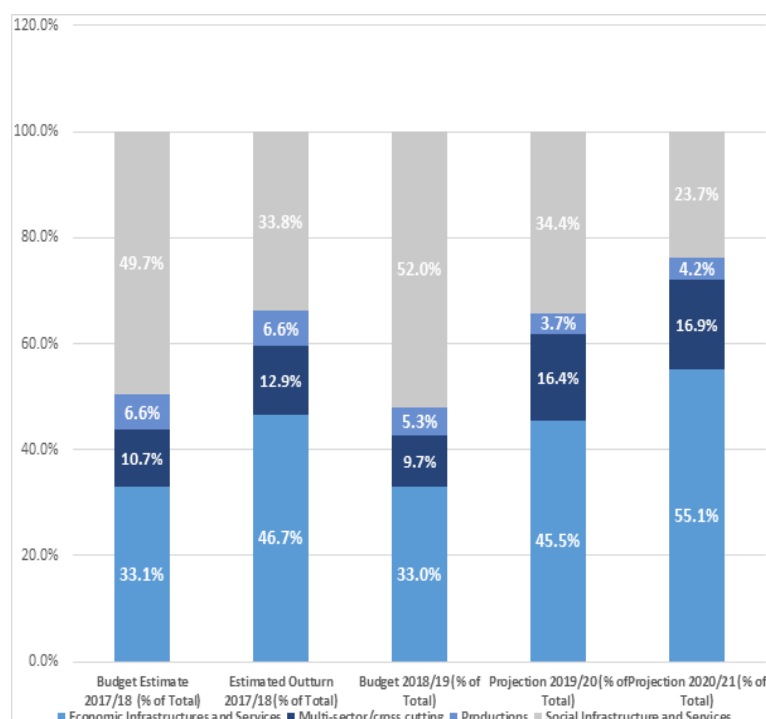
that most of these funds have yet to be received and are still under negotiation, they are reflected in the Ministry of Finance and National Planning budget until when negotiations are completed and finalised. They can then be allocated to respective MDAs' budget accordingly.

An important policy decision made in 2018/19 is the removal of the list of unconfirmed projects, estimated at \$10.6 million for 2018/19. This has the tendency to inflate the estimates.

Aid Funded Project Expenditure by Development Aid Classification (DAC)

According to the Organisation for Economic Co-operation and Development's (OECD), Overseas Development Assistance (ODA) Classification, Social Infrastructure and Services increased from 49 percent in 2017/18 to 52 percent in 2018/19, which reflects the development assistance that is tagged for recovery activities to build back better educational infrastructures, home residences, and Government public buildings due to major damages caused by TC Gita Cyclone early in the year.

The Economic Infrastructure and Services remains a major contributor of \$118.78 million for economic growth, prosperity and sustainable development of which energy (\$64.9 million), transportation (\$40.7 million), communication (\$13.2 million) and business activities are categorized. While Cyclone Gita caused significant damage to the power grid, lower levels of damage were experienced in the power generation infrastructure, with the estimated damage of about



\$615,000. TPL's diesel generation assets had been quickly repaired though since the landfall of Gita. It was approved that Nuku'alofa Network Upgrade Project (NNUP) take up medium term disaster resilience rehabilitation works of power grid infrastructure assets on Tongatapu. The aim is to 'Reduce Imported Fossil Fuels for Power Generation by 50 percent in 2020'. The restoration of the electricity supply offers a good opportunity to build back better and move towards this strategic priority. Policy Interventions include: Public Private Partnership (PPP) negotiations to strengthen partnership for energy efficiency; supporting wind power, solar systems and storage; reviewing the Energy Bill; LED policies to save power; and support for petroleum storage energy.

The multi-sector/cross cutting and production takes up \$40.5 million which is 15 percent of the development assistance in 2018/19. DAC Production Sector consists of Agriculture of \$10.0 million and Fisheries at \$4.5 million which continues to support the Tonga Agriculture and Fisheries Sector Plan (TAFSP) in driving for proactive development of sustainable agriculture activity that will reduce the risk of food insecurity, reduces poverty, and increases the contribution to GDP. The Multi-sector aid of \$25.96 million comprises of ADB Climate Resilience Sector Project of \$6.8 million, Pacific Risk Resilience Programme of \$0.1 million, US Aid Climate Ready of \$1 million, World Bank Coastal Protection – Foreshore of \$2 million, UNDP Coastal Protection of \$1

million, Pacific Resilience Programme of \$11.0 million, SPC preparedness projects of \$1 million, South Pacific Regional Environmental Program of \$0.5 million, and smaller climate range related projects worth of \$2.56 million, which reflects government priorities to improve protocols for disaster preparedness, response and recovery of communities after natural disaster, build on a more integrated and coordinated approach between all relevant parts of government, CSOs, private sector and the wider community and to be more resilient.

Aid Funded Project Expenditure by Development Partners

Development Partners	Actual 2016/17 (\$m)	Budget Est. 2017/18 (\$m)	Est. Out. 2017/18 (\$m)	Budget 2018/19 (\$m)	Projection 2019/20 (\$m)	Projection 2020/21 (\$m)
Asian Development Bank	28.41	48.00	30.34	53.62	62.72	60.48
Council of Regional Organization in the Pacific Agency	4.53	11.51	7.92	3.01	0.43	0.43
European Union	1.14	2.09	2.01	7.31	0.61	0.21
Government of Australia	23.74	25.76	17.96	22.72	19.28	11.12
Government of Japan	35.62	30.50	32.72	42.70	43.70	17.70
Government of New Zealand	19.47	16.01	24.28	28.48	19.29	19.79
Pooled Funds - Aust & NZ	4.28	2.50	1.95	2.50	2.50	2.50
Republic of China	21.21	55.70	2.89	29.05	40.00	24.30
United Nation Agencies	8.35	11.63	11.03	10.87	43.26	42.90
United States of America	0.51	1.51	1.51	1.51	1.51	0.51
World Bank	14.63	31.92	28.30	75.38	67.85	40.75
Other Donors	2.71	3.40	3.36	15.83	1.70	1.54
Unconfirmed Donors	0.71	10.72	0.06	0.34	0.58	0.34
Grand Total	165.32	251.25	164.34	293.32	303.44	222.57

Development partners continue to play a critical role in the development of the country.

For the World Bank, the funding envelope for the current triennium (IDA18: 2017/18- 2019/20) of US\$67.8 million will be in the areas of transport (USD\$27.8 million), fisheries (USD\$5 million), E-government (USD\$5 million), youth employability (USD\$15.0 million) and budget support (USD\$15 million). Comparatively, this is an increase from a total of USD\$19.2 million provided by World Bank in the previous triennium (IDA17: 2014/15 – 16/17).

Similarly the Asian Development Bank (ADB) next funding envelope commencing 2018-2020 will be in the areas of Integrated Urban Resilience (USD\$12 million), GCF & Renewable Energy (USD\$6.5 million), Transport Evacuation Bridge (USD\$20 million), Budget support (USD\$15.0 million) and this too is an increase from USD\$44.9 million to an average of USD\$60 million.

Government of Australia (DFAT) assistance is led by their Aid Investment Plan (AIP) 2015/16 – 2018/19 of approximately AUD\$60.0 million with support in four strategic areas namely 1) Support to economic, governance and private sector development reforms 2) To promote a more effective, efficient and equitable health system 3) To improve economic opportunities for Tongan workers through investments in skills development and 4) Cross-cutting issues (Gender, Climate change, Disability).

Government of New Zealand (MFAT) provides assistance through their Joint Country Program 2015/16 to 2017/18 NZD\$74.0 million the areas of 1) Energy 2) Economic Development 3) Education/Skills Development and 4) Law and Justice.

The European Union (EU) 11th European Development Fund (EDF) 2014-2020 is €11.1 million with €10 million towards the focal sector of energy in the form of budget support and €1.1 million towards the Technical Cooperation Facility (Support to the NAO office and Civil Society).

The People's Republic of China (PRC) provide Technical corporations and the most recent one signed was for RMB 100 million while in 2017 it was RMB 200 million and RMB 150 million in 2016. These are in various sectors including Education, transport, agriculture.

Japan's Economic Cooperation with Tonga focuses on 5 main areas which are: 1) *General Grant Aid*, which aims at constructing clinics, hospitals, vocational school facilities, roads, bridges and any related equipment, 2) *Grant Assistance for Grass Roots Human Security Projects (GGP)*, which provides financial assistance to NGOs, hospitals, primary schools and other non-profit organizations to help implement development projects that have direct impact on the well-being of grass roots and communities, 3) *Non-Project Grant Aid (NPGA)*, which is a grant aid intended to provide rapid support to developing countries with economic difficulties such as growing accumulated debt or a rising international balance of payments deficit, as part of assistance to improve the country's economic structure and 4) *Technical Cooperation*, a programme of various inputs that achieve project purposes.

UN assistance organized its programme support to Tonga in the UNDAF 2018-2022 of approximately. There are 5 Thematic areas of support which are: 1) Climate Change, Disaster Resilience and Environmental Protection 2) Gender Equality 3) Sustainable and Inclusive Economic Empowerment 4) Equitable Basic Services (Health, Education, Social Protection) and 5) Human Rights approximately \$104.4 million.

Aid Funded Project Expenditure by Ministry

Ministry	Actual Spent 2016/2017 (\$m)	Budget 2017/2018 (\$m)	Estimated Outturn 2017/2018 (\$m)	Budget 2018/2019 (Proposed) (\$m)	Projection 2019/2020 (\$m)	Projection 2020/2021 (\$m)
Palace Office	0.5	0.3	-	-	-	-
Legislative Assembly	0.0	0.1	0.1	0.3	10.1	10.1
Tonga Office of the Auditor General	0.2	0.2	0.2	0.2	0.2	0.2
Office of the Ombudsman	-	-	0.0	-	-	-
Ministry of Foreign Affairs	0.3	-	0.3	0.1	0.1	-
His Majesty's Armed Forces	8.0	12.0	7.7	5.9	6.0	5.0
Prime Minister's Office	-	0.1	-	-	-	-
Ministry of Finance & National Planning	26.5	12.6	11.3	72.8	44.2	22.6
Ministry of Revenue & Customs	0.1	6.4	-	6.0	0.5	-
Ministry of Public Enterprises	9.1	4.0	4.4	0.2	0.2	0.2
Ministry of Commerce , Consumer, Trade, Innovation and Labour	0.3	0.5	0.1	0.2	0.0	0.0
Ministry of Justice and Prison	0.7	1.3	1.9	2.3	1.7	1.7
Attorney General's Office	0.2	0.2	0.2	0.2	0.2	0.2
Ministry of Police & Fire Services	3.7	3.9	2.3	2.9	4.9	2.9
Ministry of Health	11.5	16.8	13.6	12.0	9.5	8.6
Ministry of Education & Training	12.9	18.6	14.2	19.9	17.7	12.0
Ministry of Internal Affairs	3.9	48.5	7.7	14.0	12.0	4.1
Ministry of Agriculture, Food & Forests	4.4	9.3	5.2	6.5	4.9	4.3
Ministry of Infrastructure	41.4	49.2	46.4	39.5	42.2	40.8
Ministry of Lands & Natural Resources	0.1	7.6	6.4	1.8	2.0	5.0
Public Service Commission	0.2	2.0	0.5	0.4	0.4	0.4
Statistics Department	0.5	-	0.3	0.1	-	-
Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change	39.6	52.9	39.6	103.5	143.2	101.2
Ministry of Fisheries	1.2	2.8	1.8	4.5	3.4	3.2
Ministry of Tourism	-	2.1	0.2	-	-	-
Total	165.3	251.2	164.3	293.3	303.4	222.6

The allocation of Development budget by MDAs for 2018/19, MEIDECC has the highest allocation of \$103.5 million followed by Ministry of Finance and National Planning (MOFNP) with \$72.8 million, and Ministry of Infrastructure (MOI) with \$39.5 million.

The major projects in MEIDECC for 2018/19, are the ongoing ADB Outer Island Renewable Energy Project \$21.6 million and Climate Resilience Sector Project \$6.6 million; followed by Japan Installation of Winds Power Generation System \$20.0 million and Nationwide Early Warning System \$19.0 million; ongoing World Bank

Pacific Resilience Program \$11.1 million; and the Green Climate Fund proposed Coastal Protection and Tonga Renewable Energy Project \$4.3 million. These major projects are all attributed to mitigation and adaptation to climate change impacts and risks.

Major projects in MOFNP for 2018/19, are the recovery funds for Tropical Cyclone GITA \$46.6 million and response funds \$13 million, followed by \$2.5 million for Japan Non-Project Grant Aid (NPGA). The TC GITA funds are held under MOFNP for management purposes and it will be used on the agreed respective clusters.

The major projects under MOI includes the World Bank Tonga Climate Resilient Transport Project \$21.6 million and Tonga Aviation Investment Project (TAIP) \$6.6 million focusing on the transport sector such as the Aviation, Maritime, and Roads, followed by ADB Climate Resilience Sector Project (CRSP) \$5.8 million focusing on the Evacuation and post disaster access roads.

Development Expenditure by Location

Nationwide projects take up almost 50 percent of the total projects by location for 2018/19 as compared to 21 percent in 2017/18. The increase in national programmes reflects the need to ensure more inclusiveness in development. Just over 50 percent of nationwide projects fall under the social infrastructure and services category at \$79.4 million of which the Government and Civil Society sub-sector records \$62.2 million, comprising of educational related projects at \$14.2 million, health at \$2.9 million and other social services at \$0.1 million. The economic infrastructure and services category is made up of 27 percent of the nationwide

Nationwide	Actual 2016/2017 (\$m)	Budget Estimate 2017/18 (\$m)	Estimated Outturn 2017/18 (\$m)	Budget 2018/19 (\$m)	Projection 2019/20 (\$m)	Projection 2020/21 (\$m)
Economic Infrastructures and Services	4.00	15.96	11.79	38.06	84.91	86.30
Transport & Storage	-	13.11	4.64	21.11	32.50	37.30
Communication	-	1.00	-	13.20	22.00	19.00
Energy	4.00	1.85	7.15	3.75	30.41	30.00
Banking and financial services	-	-	-	-	-	-
Business and other services	-	-	-	-	-	-
Multi-sector/cross cutting	5.69	13.52	11.73	16.09	6.00	-
General Environmental Protection	-	-	-	-	-	-
Multi-Sector Aid	5.69	13.52	11.73	16.09	6.00	-
Productions	3.94	3.24	2.97	7.49	5.40	5.40
Mineral Resources & Mining	-	-	-	-	-	-
Production (Agriculture)	2.96	2.60	2.43	4.20	2.50	2.50
Production (Fisheries)	0.33	0.38	0.36	3.29	2.90	2.90
Production (Tourism)	0.64	0.26	0.19	-	-	-
Production (Forestry)	-	-	-	-	-	-
Production (Industry)	-	-	-	-	-	-
Production (Construction)	-	-	-	-	-	-
Trade Policy and regulations	-	-	-	-	-	-
Social Infrastructure and Services	16.46	19.81	17.49	79.43	53.21	29.26
Government and Civil Society	4.92	3.70	7.46	62.16	35.58	15.08
Other Social Infrastructure and Services	0.30	0.09	0.20	0.11	0.11	0.11
Population programs/policies and reproductive health	-	-	-	-	-	-
Social Infrastructure and Services (Education)	8.74	12.60	7.87	14.24	14.00	10.55
Social Infrastructure and Services (Health)	2.50	3.42	1.96	2.92	3.52	3.52
Water Supply & Sanitation	-	-	-	-	-	-
Grand Total	30.09	52.52	43.98	141.07	149.51	120.96

projects which is the transport & storage projects worth of \$21.1 million, communication at \$13.2 million and Energy at \$3.8 million. Multi-sector/cross cutting sector takes up 11 percent of the total project amounts and Production of agriculture and fisheries take up to 6 percent.

The allocation for **Tongatapu** as shown in table above, the total amount of projects is at \$118.1 million or 40 percent of the total budget for 2018/19. This is decline from 60 percent in 2017/18 as a number of infrastructural projects have reached final phases (Domestic Wharf, the rural solar project and adaption climate change projects). In 2018/19, both the economic and social infrastructure services projects take up 85 percent of the total projects. The rest falls under the Production sector and Multi-sector cross-cutting projects. The Energy efficiency projects are the major focus in Tongatapu where \$40.4 million is allocated for 2018/19. This comprises the Nuku'alofa Network upgrade project by MFAT & ADB, two major projects funded by JICA on the installation of the Nationwide Early Warning System and Installation of Winds Power Generation System and Tonga Village Network upgrade project. Recovery activities and reconstruction of is also planned to soon commence.

Tongatapu	Actual 2016/2017 (\$m)	Budget Estimate 2017/18 (\$m)	Estimated Outturn 2017/18 (\$m)	Budget 2018/19 (\$m)	Projection 2019/20 (\$m)	Projection 2020/21 (\$m)
Economic Infrastructures and Services	41.40	42.95	47.11	51.22	43.03	17.03
Transport & Storage	40.14	41.59	46.30	10.87	3.03	3.03
Communication	0.76	0.60	0.79	-	-	-
Energy	0.50	0.50	0.02	40.35	40.00	14.00
Banking and financial services	-	-	-	-	-	-
Business and other services	-	0.26	-	-	-	-
Multi-sector/cross cutting	4.79	11.08	8.04	9.75	11.20	11.20
General Environmental Protection	0.06	0.04	-	-	-	-
Multi-Sector Aid	4.73	11.04	8.04	9.75	11.20	11.20
Productions	4.24	11.94	7.15	7.04	4.88	4.17
Mineral Resources & Mining	-	-	-	-	-	-
Production (Agriculture)	3.31	7.60	5.69	5.86	4.16	3.84
Production (Fisheries)	0.86	2.28	1.46	1.18	0.72	0.33
Production (Tourism)	0.07	2.06	-	-	-	-
Production (Forestry)	-	-	-	-	-	-
Production (Industry)	-	-	-	-	-	-
Production (Construction)	-	-	-	-	-	-
Trade Policy and regulations	-	-	-	-	-	-
Social Infrastructure and Services	58.01	97.00	37.14	50.09	52.09	36.28
Government and Civil Society	35.48	27.93	16.79	22.40	30.88	26.85
Other Social Infrastructure and Services	9.86	56.65	6.65	16.95	11.52	2.91
Population programs/policies and reproductive health	-	-	-	-	-	-
Social Infrastructure and Services (Education)	4.16	6.05	6.37	5.72	3.72	1.44
Social Infrastructure and Services (Health)	8.51	6.36	7.33	5.02	5.98	5.08
Water Supply & Sanitation	-	-	-	-	-	-
Grand Total	108.44	162.96	99.44	118.10	111.20	68.68

The allocation for **Vava'u** as shown in table for Vava'u for 2017/18, was \$11.1 million; allocated for most projects under the Economic and Social Infrastructure and Services. The projects include the renovation of the Ngu Hospital funded by World Bank, and the rehabilitation of approximately 60 percent of the existing Vava'u energy network system to improve operational efficiency through the OIREP which will continue in 2018/19 and 2019/20 to attain the target of 60 percent.

Vava'u	Actual 2016/2017 (\$m)	Budget Estimate 2017/18 (\$m)	Estimated Outturn 2017/18 (\$m)	Budget 2018/19 (\$m)	Projection 2019/20 (\$m)	Projection 2020/21 (\$m)
Economic Infrastructures and Services	0.63	8.62	8.72	6.00	2.00	-
Transport & Storage	0.60	0.60	0.60	-	-	-
Energy	0.03	8.02	8.12	6.00	2.00	-
Multi-sector/cross cutting	0.04	0.00	0.03	0.00	14.00	14.00
General Environmental Protection	0.00	-	-	-	-	-
Multi-Sector Aid	0.04	0.00	0.03	0.00	14.00	14.00
Productions	0.06	0.01	-	-	-	-
Production (Fisheries)	0.01	0.01	-	-	-	-
Production (Tourism)	0.05	-	-	-	-	-
Social Infrastructure and Services	0.54	2.50	2.54	0.00	0.00	0.00
Government and Civil Society	0.01	0.00	0.00	-	-	-
Other Social Infrastructure and Services	0.01	-	-	-	-	-
Social Infrastructure and Services (Education)	0.02	-	0.00	-	-	-
Social Infrastructure and Services (Health)	0.51	2.50	2.53	0.00	0.00	0.00
Grand Total	1.27	11.13	11.29	6.00	16.00	14.00

To **Ha'apai**, is allocated \$11.8 million in 2018/19. Projects to be implemented include \$5.4 million towards the continuation of OIREP across the Ha'apai group. The World Bank funded Tonga Climate Resilient Transport

Ha'apai	Actual 2016/2017 (\$m)	Budget Estimate 2017/18 (\$m)	Estimated Outturn 2017/18 (\$m)	Budget 2018/19 (\$m)	Projection 2019/20 (\$m)	Projection 2020/21 (\$m)
Economic Infrastructures and Services	4.53	10.30	0.86	7.70	4.90	2.30
Transport & Storage	-	0.20	0.20	2.30	2.30	2.30
Communication	-	0.60	0.60	-	-	-
Energy	4.53	9.50	0.06	5.40	2.60	-
Banking and financial services	-	-	-	-	-	-
Business and other services	-	-	-	-	-	-
Multi-sector/cross cutting	13.84	2.10	0.04	0.00	13.00	13.00
General Environmental Protection	-	-	-	-	-	-
Multi-Sector Aid	13.84	2.10	0.04	0.00	13.00	13.00
Productions	0.07	1.28	0.43	-	-	-
Mineral Resources & Mining	-	-	-	-	-	-
Production (Agriculture)	0.06	0.40	0.43	-	-	-
Production (Fisheries)	0.01	0.88	0.01	-	-	-
Production (Tourism)	0.00	-	-	-	-	-
Production (Forestry)	-	-	-	-	-	-
Production (Industry)	-	-	-	-	-	-
Production (Construction)	-	-	-	-	-	-
Trade Policy and regulations	-	-	-	-	-	-
Social Infrastructure and Services	0.77	3.75	2.33	4.13	0.02	0.02
Government and Civil Society	0.49	0.44	0.47	-	-	-
Other Social Infrastructure and Services	0.01	0.00	-	0.00	0.00	0.00
Population programs/policies and reproductive health	-	-	-	-	-	-
Social Infrastructure and Services (Education)	0.02	-	0.01	-	-	-
Social Infrastructure and Services (Health)	0.25	3.32	1.84	4.12	0.02	0.02
Water Supply & Sanitation	-	-	-	-	-	-
Grand Total	19.21	17.43	3.66	11.83	17.92	15.33

Project (TCRTP) will also be implemented with a total of \$2.3 million addressing infrastructure maintenance across all modes of transport ensuring safer and more reliable transport services.

Under the Social infrastructure investment, ADB will finance the Ha'apai Hospital under the Climate Resilience Sector Project (CRSP) with a total of \$4.1 million. The balance being Australia's further investment into Tonga Health Support System Project Phase 3.

According to the allocation for 'Eua in 2018/19, a total of \$3.6 million estimated for 2018/19 for this region. Projects to be implemented include the Tonga Climate Resilient Transport Project (TCRTP) which aims to support the transport sector across all island groups by: (i) addressing the infrastructure maintenance backlog in the road, aviation and maritime sectors; (ii) increasing the resilience of transport infrastructure to climate change and extreme weather events; and (iii) ensuring safer and more reliable transport services with a total of \$3.2 million for 2018/19.

	Actual 2016/2017 (\$m)	Budget Estimate 2017/18 (\$m)	Estimated Outturn 2017/18 (\$m)	Budget 2018/19 (\$m)	Projection 2019/20 (\$m)	Projection 2020/21 (\$m)
'Eua						
Economic Infrastructures and Services	5.50	2.08	4.08	3.20	3.20	3.20
Transport & Storage	-	0.08	0.08	3.20	3.20	3.20
Communication	-	-	-	-	-	-
Energy	5.50	2.00	4.00	-	-	-
Banking and financial services	-	-	-	-	-	-
Business and other services	-	-	-	-	-	-
Multi-sector/cross cutting	0.02	0.00	-	0.00	0.00	0.00
General Environmental Protection	0.01	-	-	-	-	-
Multi-Sector Aid	0.00	0.00	-	0.00	0.00	0.00
Productions	-	-	-	-	-	-
Mineral Resources & Mining	-	-	-	-	-	-
Production (Agriculture)	-	-	-	-	-	-
Production (Fisheries)	-	-	-	-	-	-
Production (Tourism)	-	-	-	-	-	-
Production (Forestry)	-	-	-	-	-	-
Production (Industry)	-	-	-	-	-	-
Production (Construction)	-	-	-	-	-	-
Trade Policy and regulations	-	-	-	-	-	-
Social Infrastructure and Services	0.02	0.50	0.02	0.40	0.40	0.40
Government and Civil Society	0.01	0.50	0.00	0.40	0.40	0.40
Other Social Infrastructure and Services	0.00	0.00	-	0.00	0.00	0.00
Population programs/policies and reproductive health	-	-	-	-	-	-
Social Infrastructure and Services (Education)	0.00	-	0.00	-	-	-
Social Infrastructure and Services (Health)	0.01	-	0.01	-	-	-
Water Supply & Sanitation	-	-	-	-	-	-
Grand Total	5.53	2.58	4.10	3.60	3.60	3.60

The remaining \$0.4 million is for water storage facilities that are to be funded by the Government of India.

Niuaatoputapu and Niuafo'ou: A total of \$12.6 million is estimated for 2018/19. This includes Tonga Climate Resilient Transport Project (TCRTP), component 2 – to address maritime transport infrastructure maintenance backlog, funded by World Bank and scheduled to commence in September 2018. OIREP is currently ongoing with Phase 2 and 4 to be implemented in 2018/19. This includes installation of solar power with effective storage and an 80kW back-up diesel generator-set for Niuaatoputapu. There's also rehabilitation work on existing Solar Home Systems in Niuafo'ou and a new mini grid will be installed for network distribution in Niuaatoputapu to bring the new installed solar and battery power from the centralised power station to the household.

Niuafo'ou	Actual 2016/17 (\$m)	Bud. Est. 2017/18 (\$m)	Est. Out. 2017/18 (\$m)	Budget 2018/19 (\$m)	Projection 2019/20 (\$m)	Projection 2020/21 (\$m)
Economic Infrastructure and Services	-	3.30	-	12.60	5.20	-
Transport & Storage	-	-	-	3.20	3.20	-
Energy	-	3.30	-	9.40	2.00	-
Multi- sector/cross cutting	-	0.11	-	0.11	-	-
Multi-Sector Aid	-	0.11	-	0.11	-	-
Social Infrastructure and Services	0.8	1.20	1.9	-	-	-
Government and Civil Society	0.00	0.00	-	-	-	-
Social Infrastructure and Services (Health)	0.8	1.20	1.9	-	-	-
Water Supply & Sanitation	-	-	-	-	-	-
Grand Total	0.8	4.6	1.9	12.7	5.2	-

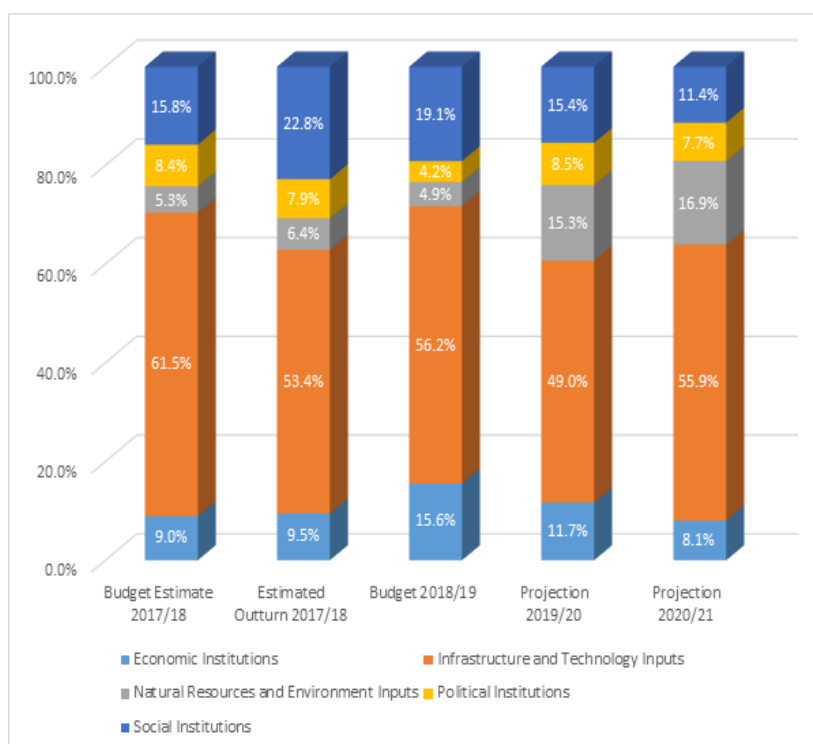
Aid Funded Project Expenditure by TSDF II Pillars

The allocation of aid funded project according to five pillars of the Tonga Strategic Development Framework (TSDF II). For 2018/19, the largest portion of the budget is allocated to the *Infrastructure and Technology Inputs* at \$117.7 million, followed by *Natural Resources and Environment Inputs* at \$93.3 million and *Social Institutions* at \$41.9 million. This ranking is the same as in 2017/18.

Development Budget 2017/18-2018/19 Grouped by TSDF II Pillars and Organizational Outcomes (T\$m)						
TSDF II Pillars	Actual 2016/17	Budget Estimates 2017/18	Budget Outturns 2017/18	Budget Estimates 2018/19	Projection 2019/20	Projection 2020/21
Economic Institution	12.4	21.9	11.9	26.4	16.2	15.0
1.1 Improved macroeconomic management and stability with deeper financial markets	0.12	0.1	0.1	0.1	0.1	0.1
1.2 Closer Private Public Partnership for Economic Growth	4.44	7.9	7.9	10.6	6.5	6.0
1.3 Strengthened business enabling environment	0.67	7.9	0.2	7.3	2.7	2.2
1.4 Improved public enterprise performance	0	0.0	0.0	0.0	0.0	0.0
1.5 Better access to and use of overseas trade and employment and foreign investment	7.21	6.0	3.7	8.3	7.0	6.7

Development Budget 2017/18-2018/19 Grouped by TSDF II Pillars and Organizational Outcomes (T\$m)						
TSDF II Pillars	Actual 2016/17	Budget Estimates 2017/18	Budget Outturns 2017/18	Budget Estimates 2018/19	Projection 2019/20	Projection 2020/21
Social Institution	25.5	82.8	30.8	41.9	36.4	21.7
2.1 Improved collaboration with and support to civil society and community groups	0.59	44.2	1.7	9.5	8.8	0.7
2.2 Closer Partnership between Government, Churches & Other Stakeholders for community development	0.1	0.5	0.4	0.1	0.1	0.1
2.3 More appropriate Social & Cultural Practices	0.07	1.5	0.0	0.0	0.0	0.0
2.4 Improved Education & Training Providing Lifetime Learning	13.15	18.9	14.7	20.1	17.9	12.2
2.5 Improved Health Care and Delivery Systems	11.35	16.5	13.6	12.1	9.5	8.6
2.6 Stronger integrated approaches to address both communicable & non - communicable diseases	0.2	0.04	0.08	0.05	0.05	0.05
2.7 Better care & support for vulnerable people, in particular the disabled	0.07	1.2	0.3	0.06	0.07	0.06
2.8 Improved collaboration with the Tongan diaspora	0.0	0.0	0.0	0.0	0.0	0.0
Political Institution	14.2	16.8	11.6	14.0	12.5	11.8
3.1 More Efficient, Effective , Affordable, Honest, Transparent & Political Public Service focus on clear priorities	5.03	8.1	2.8	4.1	3.3	2.5
3.2 Improved Law & Order and Domestic Security appropriately applied	1.28	2.2	2.17	3.95	3.28	3.28
3.3 Appropriate decentralization of government admin with better scope for engagement with the public	0.0	0.0	0.0	0.0	0.0	0.0
3.4 Modern & Appropriate Constitution, laws & regulation reflecting international standard of democratic of democrats processes	0.0	0.0	0.0	0.0	0.0	0.0
3.5 Improved working relations & coordination between Privy Council, executive, legislative & judiciary	0.8	0.8	0.87	0.49	0.49	0.49
3.6 Improved collaboration with development partners	0.6	0.5	0.5	0.5	0.5	0.5
3.7 Improved Political and Defense Engagement within the Pacific and the rest of the World	6.48	5.2	5.2	5.0	5.0	5.0
Infrastructure & Technology	85.7	94.6	83.0	117.7	157.3	119.9
4.1 More reliable and affordable energy services	23.38	29.0	23.6	64.9	77.0	44.0
4.2 More reliable , safe , affordable transport services	40.84	52.5	51.9	37.6	44.2	45.8
4.3 More reliable , safe & affordable information and Communication Technology used in more innovative	0.76	2.3	1.4	13.2	22.0	19.0
4.4 More reliable , safe & affordable, building and other structures	20.71	10.8	6.15	1.95	14.05	11.05
4.5 Improved use of reserch & development focussing on priority needs based on stronger foresight	0.0	0.1	0.0	0.0	0.0	0.0
4.6 More reliable, safe, affordable water supply and control, and sanitation services	0.0	0.0	0.0	0.0	0.0	0.0
Natural Resources & Environment	27.5	35.1	27.1	93.3	81.1	54.2
5.1 Improved land use planning & management for private and public spaces	0.05	0.0	0.0	0.0	0.0	0.0
5.2 Improved used of natural resources for long term flow of benefits	0.07	0.04	0.0	0.0	0.0	0.0
5.3 Cleaner environment with improved waste recycling	0.0	0.0	0.0	0.0	0.0	0.0
5.4 Improved resilience to natural disasters and impact of climate change	27.36	35.1	27.1	93.3	81.1	54.2
TOTAL	165.3	251.2	164.3	293.3	303.5	222.6

Out of the five TSDF pillars for 2018/19, the infrastructure and technology inputs received the highest allocation, as illustrated on column chart. More than 50 percent of this pillar comprises of energy efficiency projects including the recovery efforts following TC Gita such as retrofitting/repairs and reconstruction of government buildings, schools and residential homes, improvement to water and sanitation structures and strengthening road structures. Social institutions is the next, at an average of 16.9 percent. This is followed by Economics institutions at an average of 10.8 percent, and the Natural Resources and Environmental Inputs at an average of 7.3 percent and the Political Institutions as the minimal at an average of 9.76 percent.



5.3 Budget 2018/19 in the GFS Format

This section provide a synopsis of the compilation and presentation of government finance statistics using the 2001 GFS Format approved by the International Monetary Fund (IMF) as part of the harmonized System of National Accounts (SNA). It outlines strategic information on institutional structure of Government that are of interest to policy makers and researchers alike. It conforms with standard presentation of fiscal data that is similar to accounting presentation, with a balance sheet and income statement. The format therefore ensures a common government reporting framework that allows for easier cross-country comparisons of fiscal data and assessment of fiscal policy. The Statement of Government Operation table below outlines the fiscal data for 2016/17, 2017/18, 2018/19 and the medium term.

Statement of Government Operations (\$m)						
	Actual 2016/17	Budget Estimate 2017/18	Revised Estimate 2017/18	Budget Estimate 2018/19	Projection 2019/20	Projection 2020/21
Revenue	439.8	541.0	447.6	615.2	624.1	562.2
Taxes	213.3	247.4	221.4	247.8	248.1	256.0
Taxes on income, profits, and capital gains	46.1	38.1	40.0	45.4	43.4	45.4
Taxes on property	0.3	0.9	0.8	1.1	0.9	1.1
Taxes on goods and services	142.9	171.9	155.2	166.5	168.4	173.1
Taxes on international trade and transactions	24.0	36.6	25.3	34.8	35.5	36.5
Other taxes	-	-	-	-	-	-
Grants	196.4	251.4	185.9	323.3	331.6	255.4
Current	97.7	114.3	100.4	139.4	142.6	129.2
Capital	98.7	137.1	85.5	183.9	189.1	126.2
Other revenue	30.1	42.2	40.2	44.2	44.4	50.7
Property income [GFS]	11.2	20.2	19.3	21.8	20.7	22.2
Sales of goods and services	14.1	17.9	15.6	17.7	17.5	19.2
Fines, penalties, and forfeits	0.7	1.3	1.0	1.2	1.2	1.3
Voluntary transfers other than grants	0.1	-	0.0	-	-	-
Miscellaneous and unidentified revenue	4.1	2.7	4.3	3.4	4.9	8.0
Expense	298.6	407.8	335.0	422.0	417.9	404.8
Compensation of employees	129.6	148.6	137.8	154.7	154.5	154.0
Wages and salaries	115.0	135.9	126.5	142.1	141.6	141.0
Social contributions	14.6	12.7	11.3	12.6	12.9	12.9
Use of goods and services	116.9	171.6	146.5	194.9	194.3	185.6
Interest	8.3	8.1	7.8	8.1	8.1	8.1
To nonresidents	6.5	6.3	6.1	6.3	6.3	6.3
To residents other than general government	1.8	1.8	1.7	1.8	1.8	1.8
Subsidies	0.8	0.9	0.7	0.9	0.9	0.9
Subsidies to public corporations	-	-	-	-	-	-
Subsidies to private enterprises	0.8	0.9	0.7	0.9	0.9	0.9
Grants	3.2	2.5	2.9	2.5	3.7	3.7
Social benefits	21.8	24.5	20.9	26.9	26.0	24.3
Other expense	18.0	51.7	18.5	34.1	30.4	28.3
Gross Operating Balance	141.2	133.3	112.6	193.3	206.3	157.4
Net Acquisition Of Nonfinancial Assets	104.9	146.6	96.6	191.9	196.7	133.6
Fixed assets	104.7	146.4	96.5	194.0	198.9	136.0
Buildings and structures	69.5	92.6	61.5	88.0	66.5	41.8
Machinery and equipment	28.8	42.5	25.7	90.3	79.4	38.5
Other fixed assets	6.4	11.3	9.3	15.7	53.0	55.8
Nonproduced assets	0.2	0.2	0.1	(2.1)	(2.1)	(2.4)
Land	0.2	0.2	0.1	0.4	0.4	0.4
Net Lending/Borrowing Requirement	36.3	(13.4)	16.0	1.3	9.5	23.7
Net Acquisition Of Financial Assets And Liabilities (Financing)	36.3	(13.4)	16.0	1.3	9.5	23.7
Financial Assets	48.9	15.2	24.5	(2.6)	(5.2)	0.5
Domestic	48.9	15.2	24.5	(2.6)	(5.2)	0.5
Currency and deposits	40.1	0.6	7.6	(10.8)	(6.9)	0.8
Loans	8.6	14.2	16.5	7.9	1.3	(0.7)
Shares and other equity	0.2	0.4	0.4	0.4	0.4	0.4
Financial Liabilities	12.6	28.6	8.5	(3.9)	(14.8)	(23.3)
Domestic	2.7	1.9	1.0	0.9	(3.2)	(8.0)
Foreign	9.9	26.6	7.5	(4.8)	(11.6)	(15.2)

The overall fiscal balance for year ending June 2018 is projected to result in a surplus of \$16.0 million, compared to an original estimated deficit of \$13.4 million. Main contributory factors towards this revised estimate reflects the front-loading of World Bank budget support of around \$20 million, coupled with tightened government spending.

In the 2018/19 budget, the overall fiscal balance is forecasted to decrease from the revised estimate of 2017/18 to a surplus of only \$1.3 million. This is due to increased spending on TC Gita-related reconstruction that will

be financed by a drawdown of \$10.8 million from government reserves and coupled with increased foreign liabilities due to the repayment of the China EXIM principal loan amounts beginning in 2018/19. The overall fiscal balance is expected to further increase in the outer two years to surpluses of \$9.5 million and \$23.7 million respectively, based on expected recovery in collection of domestic tax revenue, as TC-Gita recovery-related exemptions phase out, non-tax revenue revision together with one-off government funded reconstruction works in 2018/19 and some in 2019/20 approaching completion. In addition, the previously loan funded components of budget support (50 percent) from the World Bank and ADB has now been changed to be on 100 percent grant basis during the medium-term, in line with the revised debt sustainability analysis.

Tax Revenues

Tax Revenue is budgeted at \$247.8 million (24 percent of GDP) in 2018/19, which is almost at the same level originally estimated for 2017/18, but is expected to be 12 percent higher than the revised estimate for the same year. The projected amount also represents an increase of 16 percent (\$35 million) over actual collections in 2016/17. The budgeted increase in tax revenue in 2018/19 is predicated upon positive growth in tax collection, favourable movements in other economic variables, as well as enhanced compliance activities by the Ministry of Revenue and Customs.

Tax Revenue

	Actual 2016/17	Budget Estimate 2017/18	Revised Estimate 2017/18	Budget Estimate 2018/19	Projection 2019/20	Projection 2020/21
Taxes						
Taxes on income, profits, and capital gains	46.1	38.1	40.0	45.4	43.4	45.4
Taxes on property	0.3	0.9	0.8	1.1	0.9	1.1
Taxes on goods and services	142.9	171.9	155.2	166.5	168.4	173.1
Taxes on international trade and transactions	24.0	36.6	25.3	34.8	35.5	36.5
Other taxes	-	-	-	-	-	-
Total	213.3	247.4	221.4	247.8	248.1	256.0

Source: MOFNP

Taxes on Income and Profits

The revised estimate for Taxes on Income and Profits in 2017/18 is projected to be \$40.0 million; \$2.0 million higher than the original estimate and \$6.1 million lower than 2016/17 provisional actual figures. Taxes on Income & profits for 2018/19 are forecasted at \$45.4 million; \$5.3 million higher than the 2017/18 revised estimate. The increase is expected from improved tax collections, including those from large businesses. In addition, the expectation is that initiatives of Government to improve the business environment in Tonga, with the assistance of the Asian Development Bank, including the upgrade of the business registration system, will translate into higher collection in the medium-term as the number of investors increase and the level of compliance improve.

Tax on goods and services

Tax on goods and services for 2018/19 is projected at \$166.5 million, an increase of \$11.2 million from the revised estimate in 2017/18 and \$23.5 million higher than the actual for 2016/17, on the basis of sustained growth in consumption taxes, both import and domestic, and excise taxes. However, the 2018/19 projection is expected to be \$5.4 million lower than the 2017/18 original estimate, mainly due to revenue forgone from tax exemptions related to TC-Gita imports. Nevertheless, recovery in the medium-term is expected, when the tax exemptions come to an end. The exemption that remains till 2019/20 is that on building materials.

Tax on Goods and Services

	Actual 2016/17	Budget Estimate 2017/18	Revised Estimate 2017/18	Budget Estimate 2018/19	Projection 2019/20	Projection 2020/21
Taxes on goods and services						
General taxes on goods and services	83.4	96.9	91.7	93.7	94.7	96.5
<i>of which Consumption Tax- (Import & Domestic)</i>	82.2	95.9	89.9	91.9	92.9	94.7
Excises	53.1	62.8	56.5	64.9	65.9	67.7
Taxes on specific services	6.4	12.2	7.0	8.0	7.9	8.9
Total	142.9	171.9	155.2	166.5	168.4	173.1

Source: MOFNP

Excise tax for 2018/19 is budgeted at \$64.9 million; an increase of \$8.3 million or 15 percent from the revised estimate in 2017/18. The increase mainly reflects the impact of proposed excise tax reforms, such as the change in excise tax rate on locally manufactured cigarettes, imported tobacco. These are in addition to the earlier review of excise tax on imported instant noodles, alcohol, high-sugar content carbonated drinks, mayonnaise, ice-cream, imported turkey tail, fuel, baby diapers and animal fats in support of improved healthy lifestyle in Tonga including efforts towards reducing risks of NCDs.

Trade Tax

The revised estimate for trade tax in 2017/18 is \$25.3 million; around 30 percent lower than the original estimate for the year. This is due to low collection of import duties as a result of duty exemptions on TC Gita related imports

Trade tax

	Actual 2016/17	Budget Estimate 2017/18	Revised Estimate 2017/18	Budget Estimate 2018/19	Projection 2019/20	Projection 2020/21
Trade Tax						
Business Import Duties	19.7	26.1	19.8	27.2	28.2	29.2
Government Import Duties	0.2	0.2	0.2	0.2	0.2	0.2
Recoverable Charges	0.0	0.1	0.1	0.1	0.1	0.1
PG Forex Levy	4.1	5.0	3.8	6.0	7.0	7.0
PG Passenger Service Charge	-	5.2	1.5	1.4	0.0	0.0
Total	24.0	36.6	25.3	34.8	35.5	36.5

Source: MOFNP

and delay in implementing the Passenger Service Charge. However, forecast for trade taxes in 2018/19 and medium-term remain positive as economic activities are expected to substantially increase, during and post-recovery efforts.

Non-tax Revenues

Non-tax revenue for 2017/18 is budgeted at \$40.2 million, a decrease by 5 percent from the original estimate in the same year. This decrease is primarily due to low collection in property incomes, other interests from government investments and from the sales of goods and services. An example is the \$1 million shortfall in collection of the seabed mineral exploration license fees.

Non-tax Revenue component

	Actual 2016/17	Budget Estimate 2017/18	Revised Estimate 2017/18	Budget Estimate 2018/19	Projection 2019/20	Projection 2020/21
Other revenue						
Property income [GFS]	11.2	20.2	19.3	21.8	20.7	22.2
Sales of goods and services	14.1	17.9	15.6	17.7	17.5	19.2
Fines, penalties, and forfeits	0.7	1.3	1.0	1.2	1.2	1.3
Voluntary transfers other than grants	0.1	-	0.0	-	-	-
Miscellaneous and unidentified revenue	4.1	2.7	4.3	3.4	4.9	8.0
Total	30.1	42.2	40.2	44.2	44.4	50.7

Source: MOFNP

Non-tax revenue is expected to increase in 2018/19 by \$3.9 million, or 10 percent, from the 2017/18 revised estimate. The rise in non-tax is predicated upon projected increase in property income, particularly from dividends of public enterprises, as a result of government reform programs that will provide support to public enterprises, coupled with expected increase in the sales of goods and services. Furthermore, non-tax revenue collection is expected to improve in the outer years as a result of the review and expected widening of non-tax revenue base, approved by government for implementation in 2018/19.

Grants

Grants is divided into three main categories under the GFS format, namely: grants from foreign government, grants from international organization, and grants from other general government units. And these are further grouped according to the grant's nature of either capital or current.

The expected increase in 2018/19 from the original estimate of 2017/18 is mainly due to increased assistance from foreign governments including Japan (up by \$40.2 million), New Zealand (\$15.9 million) and other donors for disaster relief (\$13 million). In addition, budget support is expected to increase in 2018/19 to \$43.5 million, up by \$9.1 million

Grants

	Actual 2016/17	Budget Estimate 2017/18	Revised Estimate 2017/18	Budget Estimate 2018/19	Projection 2019/20	Projection 2020/21
Grants						
Current	97.7	114.3	100.4	139.4	142.6	129.2
Capital	98.7	137.1	85.5	183.9	189.1	126.2
Total	196.4	251.4	185.9	323.3	331.6	255.4

Source: MOFNP

from the original estimate of 2017/18. Inclusive of the amount in 2018/19 is a \$20 million from the World Bank's Crisis Response Window (CRW) facility, which would help with Tonga's recovery efforts and to enhance a return to long-term development paths in the medium-term. At the same time, capital grants from the following international organizations are anticipated to also be significantly higher in 2018/19 in comparison to the original estimate of 2017/18, reflecting donor assistance towards TC Gita recovery efforts amongst others, mainly

including increases of grants from the World Bank (IDA) up by \$45.9 million; ADB by \$13.5 million, the European Union by \$5.2 million; Secretariat of the Pacific Community by \$1.0 million and others.

In the medium-term, total Grants is anticipated to decrease, particularly from 2020/21 onwards, as donor assistance towards recovery efforts post-TC Gita tappers off. It is important to note moreover that the ever-present issues of unpredictability of aid flows and budget support remain as major budgetary concern that government continues to grapple with. The concerns over this have been voiced at every opportunity and at appropriate fora with the donor community and international organizations in past years. The expectation is one of improvement in the near term, in compliance with the Paris aid effectiveness agreement and other declarations.

Total Revenue and Grants

Total Revenue and Grants as a proportion of GDP is estimated to increase from 45 percent in revised estimate 2017/18 to 59 percent in 2018/19. This is primarily due to flows of the aforementioned donor assistance and budget support, including those towards post-Gita reconstruction and recovery efforts. As stated above too, improved tax compliance, ongoing administrative reforms in the MORC, and improved capacity to mobilize administrative fees and charges by MDAs will be key towards achieving target receipts in 2018/19 and the medium-term.

Total Revenue and Grants

	Actual 2016/17	Budget Estimate 2017/18	Revised Estimate 2017/18	Budget Estimate 2018/19	Projection 2019/20	Projection 2020/21
Revenue & Grants						
Taxes	213.3	247.4	221.4	247.8	248.1	256.0
Grants	196.4	251.4	185.9	323.3	331.6	255.4
Other revenue	30.1	42.2	40.2	44.2	44.4	50.7
Total	439.8	541.0	447.6	615.2	624.1	562.2

Source: MOFNP

Total Payments, Expenses and Acquisition of Nonfinancial Assets

Total Payments, presented below, is estimated at \$431.7 million towards the end of 2017/18 compared to the original estimate of \$554.8 million, and an increase by \$28.1 million from the previous financial year (2016/17).

Total Payments, Expenses and Acquisition of Nonfinancial Assets

Total Payments	Actual 2016/17	Budget Estimate 2017/18	Revised Estimate 2017/18	Budget Estimate 2018/19	Projection 2019/20	Projection 2020/21
Expense (Current)	298.6	407.8	335.0	422.0	417.9	404.8
Compensation of employees	129.6	148.6	137.8	154.7	154.5	154.0
Use of goods and services	116.9	171.6	146.5	194.9	194.3	185.6
Interest	8.3	8.1	7.8	8.1	8.1	8.1
Subsidies	0.8	0.9	0.7	0.9	0.9	0.9
Grants	3.2	2.5	2.9	2.5	3.7	3.7
Social benefits	21.8	24.5	20.9	26.9	26.0	24.3
Other expense	18.0	51.7	18.5	34.1	30.4	28.3
Acquisition Of Nonfinancial Assets (Capital)	105.0	147.1	96.7	192.3	197.2	134.1
Fixed assets	104.8	146.9	96.6	194.4	199.3	136.5
<i>Buildings and structures</i>	69.5	92.6	61.5	88.0	66.5	41.8
<i>Machinery and equipment</i>	28.9	43.0	25.8	90.8	79.8	38.9
<i>Other fixed assets</i>	6.4	11.3	9.3	15.7	53.0	55.8
Nonproduced assets	0.2	0.2	0.1	(2.1)	(2.1)	(2.4)
<i>Land</i>	0.2	0.2	0.1	0.4	0.4	0.4
<i>Intangibles</i>	-	-	-	(2.5)	(2.5)	(2.8)
Total Payments	403.6	554.8	431.7	614.3	615.0	538.9

Source: MOFNP

In the medium term, total payments are projected to significantly increase to \$614.3 million in 2018/19, or up by almost \$60 million from the original estimate in 2017/18, and maintained at the same level in 2018/2019 before declining in 2020/21 to around the normal levels as it was in 2017/18's original estimate. This trend particularly reflects the anticipated increased spending towards mainly the post-cyclone recovery-related reconstruction as reflected in the increases under fixed assets payments.

Expenses

This is divided into eight major components: compensation of employees, social contributions, use of goods and services, interest, subsidies, grants (both current and capital), social benefits, and other expenses. As illustrated in the Expense table below, the trend shows that revised estimate for total expenses in 2017/18 is at \$335.0 million; a fall by \$72.8 million from the original estimate, mainly due to unutilized funds of around \$27 million under the Grants that was initially approved for the Pacific Games reconstruction works, in which it was later on

Expenses

	Actual 2016/17	Budget Estimate 2017/18	Revised Estimate 2017/18	Budget Estimate 2018/19	Projection 2019/20	Projection 2020/21
Expense						
Compensation of employees	129.6	148.6	137.8	154.7	154.5	154.0
Use of goods and services	116.9	171.6	146.5	194.9	194.3	185.6
Interest	8.3	8.1	7.8	8.1	8.1	8.1
Subsidies	0.8	0.9	0.7	0.9	0.9	0.9
Grants	3.2	2.5	2.9	2.5	3.7	3.7
Social benefits	21.8	24.5	20.9	26.9	26.0	24.3
Other expense	18.0	51.7	18.5	34.1	30.4	28.3
Total	298.6	407.8	335.0	422.0	417.9	404.8

Source: MOFNP

decided that Tonga will be no longer hosting the South Pacific Games 2019. These funds are re-diverted towards sports development though implementation delay is being experienced in the various projects. In 2018/19, total expenses are budgeted at \$422.0 million; an increase of \$14.2 million from the original estimate in 2017/18 and \$87.0 million from the revised estimate of the same year. Declining total expenses are projected

for the outer years. This is because of a large number of one-off expenses in 2017/18; especially those that relate to the TC Gita recovery efforts. Furthermore, projects and programs such as the remuneration review and infrastructure to address climate change impacts may be completed in the near term.

Compensation of Employees

Compensation of employees is estimated to be \$137.8 million at the end of 2017/18, a decrease of \$10.9 million from the original estimate for the same year, but \$8.2 million higher than the actual in 2016/17. The fall is due to delay in filling

vacant positions in respective MDAs, particularly with the inclusion of the banding process for new positions. Underspending of the salary revision allocation is also a

Compensation of Employees						
	Actual 2016/17	Budget Estimate 2017/18	Revised Estimate 2017/18	Budget Estimate 2018/19	Projection 2019/20	Projection 2020/21
Compensation of employees						
Wages and salaries	115.0	135.9	126.5	142.1	141.6	141.0
Social contributions	14.6	12.7	11.3	12.6	12.9	12.9
Total	129.6	148.6	137.8	154.7	154.5	154.0

Source: MOFNP

factor in the shortfall. \$4 to \$5 million of the under-spent will be used to fund MDAs' recently approved critical positions and PMS awards, bringing the un-utilized spending under compensation of employees to around \$5 million.

About 37 percent of total expenses is allocated to compensation of employees in 2018/19. This represents an increase of \$6 million from the original estimate in 2017/18. The allocation includes wages and salaries of \$142.1 million, while \$12.6 million is allocated to government contribution to the Retirement Fund. Compensation of employees is expected to fall in the medium term as impact of recent human resource policy begins to be felt in the economy. Further, the revised human resource policy will impose tighter control on staff recruitment and allow MDAs to strategically align their staffing needs with priority initiatives in their corporate plans. Furthermore, the requirement that MDAs are to submit staff proposals to OPSC and MOFNP for assessment before recruitment, serves as another layer of oversight. So also is the expected situation analysis of the costs of living in the country by OPSC and the Remuneration Authority that will inform Government on any option of any increase in remuneration expenses in the medium-term.

Social Contributions

The total social contribution original estimated for 2017/18 is \$12.7 million, in Expense table above; a decrease of \$1.9 million from the actual in 2016/17 due to reduction in government's transfer value arrears owed to the Retirement Fund. A further decline to \$12.6 million in 2018/19 is anticipated.

Total social contribution is however expected to be relatively the same in the medium-term. This is because the final payment of the transfer value arrear is planned for 2018/19 it is expected that minimal increases in government's contribution to the retirement fund may occur.

Use of Goods and Services

The total recurrent expenditure on use of goods and services in 2018/19 is budgeted at \$194.9 million, or 46 percent of total expenses. Included in this are: \$50.1 million to meet consultants' and technical assistance' professional fees, \$19 million to finance TC-Gita related reconstruction works, and \$17.6 million for

maintenance of roads, amongst others. This represents an increase of 14 percent or \$23.3 million over the 2017/18 original estimates.

Other major payments under the use of goods and services in 2018/19 are: \$13.4 million for training and conferences; \$7.4 million for grants; \$4.4 million for electricity; and \$3.3 million for medical drugs; amongst others. However, in the medium term, it is anticipated that the total budget for use of goods and services will decrease by \$0.6 million and \$9.3 million in 2019/20 and 2020/21 respectively. Increasing Government commitment on infrastructure investment—maintenance of roads and buildings—as well as investing in consultants and technical assistance to assist in executing reform activities are some of the driving factors.

Interest Payments

Interest payments in the GFS framework have two major components—interest payments to non-residents or foreigners and residents other than general governments. Interest payments on non-resident (foreign) has the highest share of interest payments; due mainly to interest payments on foreign debt.

Total interest payments on domestic and foreign debts estimated in 2017/18 was \$8.1 million; a decline from actual of \$8.3 million in 2016/17. In the medium-term, interest payments on both foreign and domestic debts

Interest Payments						
	Actual 2016/17	Budget Estimate 2017/18	Revised Estimate 2017/18	Budget Estimate 2018/19	Projection 2019/20	Projection 2020/21
Interest						
To nonresidents	6.5	6.3	6.1	6.3	6.3	6.3
To residents other than general government	1.8	1.8	1.7	1.8	1.8	1.8
Total	8.3	8.1	7.8	8.1	8.1	8.1

Source: MOFNP

are projected to be maintained under government's normal loan repayments, whereas only the principal amounts on foreign debt will significantly increase in 2018/19, particularly to reflect the commencement of the China EXIM loan repayment.

Subsidies

Subsidies comprise of two main components: subsidies to private enterprises and public corporations. In the context of Tonga's budget estimates, subsidies to public corporations are not allocated for. The only active subsidies is the assistance to Private Enterprises through the Development Committees. Such assistance is critical to community engagement and development as it gets to the grass-roots level and the benefits are almost equally shared by the people in respective communities given the size of the annual allocation. The original estimate for subsidies to public enterprises in 2017/18 is \$0.9 million; an increase of \$0.1 million from the actual in 2016/17. The subsidies' budget for 2018/19 remains at \$0.9 million and also in the medium-term.

Grants

Grants is also split into three main areas in the GFS: to foreign governments, to international organizations, and to other general government units. However, grants to international organization is the only payments currently active. These are essentially contributions to international and regional organizations that cover Tonga's financial obligations due to active membership.

It is estimated that at the end of 2017/18, grants will increase by \$0.4 million from the original estimate of the same year. In 2018/19, grant is budgeted at \$2.5 million; a decrease by \$0.4 million from the revised estimate in 2017/18. The total grants in 2019/20 is expected to increase by \$0.8 million; and maintained in 2020/21 a result of an increase in Tonga's financial pledges to several international organizations.

Social Benefits

The payment of social benefits to individuals in all countries of the world is unquestionable. It goes a long way towards meeting the needs of the most vulnerable—the elderly, pensioners, less-able, the students' scholarships, etc.—in the society. The budgeted social benefit in 2018/19 is expected to increase by \$5.1 million from the actual in 2016/17, an increase of \$6.0 million from the revised estimate in 2017/18 and \$2.4 million from the original estimate of the same year. This arises from scholarships' payments budgeted to increase by \$2.3 million in 2018/19.

Other Expenses

The revised estimate for total other expenses for 2017/18 is forecasted at \$18.5 million; a reduction of \$33.2 million from the original estimate of \$51.7 million, of which around \$27 million is represented by the aforementioned un-utilized funding under grants for Sports development activities.

The budget estimates for other expense in 2018/19 is \$34.1 million; a decrease by \$17.6 million from the original estimate, and \$15.6 million over the revised estimate in 2017/18. This decline in the 2018/19 budget when compared with the original estimate for 2017/18 is due to re-directing funds to recovery-related efforts. Further, an increased allocation of government subsidies/grants to non-government secondary schools by \$7 million in 2018/19 is planned; and an increase by \$1.4 million on the constituency funds aimed at establishing focal office centres for the constituents is also budgeted.

Moreover, other expense is projected to fall in the two outer years due to major construction projects that are due for completion in the near term, including fund under grants for sports aimed at maintaining the Teufaiva Stadium tracks and relocation of Tonga Side School.

Acquisition of Non-financial Assets (payments of capital items)

Acquisition of non-financial assets is budgeted at \$194.4 million in 2018/19; an increase of \$89.5 million from the actual in 2016/17, \$47.8 million from the original estimate and \$97.8 million as compared to the revised estimates in 2017/18.

Acquisition of Non-financial Assets

	Actual 2016/17	Budget Estimate 2017/18	Revised Estimate 2017/18	Budget Estimate 2018/19	Projection 2019/20	Projection 2020/21
Fixed assets						
Buildings and structures	69.5	92.6	61.5	88.0	66.5	41.8
Machinery and equipment	28.8	42.5	25.7	90.3	79.4	38.5
Other fixed assets	6.4	11.3	9.3	15.7	53.0	55.8
Land	0.2	0.2	0.1	0.4	0.4	0.4
Total	104.9	146.6	96.6	194.4	199.2	136.4

Source: MOFNP

This huge increase, as aforementioned, is due to the TC-Gita related reconstruction efforts and other high impact projects that are to be supported by inflow of cash and in-kind assistance from development partners. It is projected that acquisition of non-financial assets in the outer years will continue to rise and maintained in 2019/20, prior declining in 2020/21 after completion of these related major projects.

Financing

Net Lending/Borrowing Requirement is expected to be financed over the budget period. The net acquisition of financial assets and liabilities are currently anticipated to be a positive net-lending of \$16.0 million in 2017/18, inclusive of cash reserves of about \$7.6 million and \$16.5 million of domestic on-lent loans to Public Enterprises.

Net Acquisition of Financial Assets & Liabilities

	Actual 2016/17	Budget Estimate 2017/18	Revised Estimate 2017/18	Budget Estimate 2018/19	Projection 2019/20	Projection 2020/21
Financial Assets						
Domestic						
Currency and deposits	40.1	0.6	7.6	(10.8)	(6.9)	0.8
Loans	8.6	14.2	16.5	7.9	1.3	(0.7)
Shares and other equity	0.2	0.4	0.4	0.4	0.4	0.4
Foreign						
Loans	-	-	-	-	-	-
Total Assets	48.9	15.2	24.5	(2.6)	(5.2)	0.5
Financial Liabilities	12.6	28.6	8.5	(3.9)	(14.8)	(23.3)
Total Financial Assets and Liabilities	36.3	(13.4)	16.0	1.3	9.5	23.7

Source: MOFNP

The net-lending amount of the Government for 2018/19 amounts to \$1.3 million. This arises due to a draw-down of government reserves by \$10.8 million and a budgeted loan receipts of \$7.9 million to be raised domestically. Moreover, financial liabilities will increase due to the increase in principal repayment of foreign public debt, particularly the China EXIM loan. This is reflected in higher borrowing requirement following also in the medium-term. This would require more so attention as inflow of receipts are expected to decline in the medium-term once TC-Gita related efforts winds down. Amortization costs are also anticipated to impact government reserves and its borrowing capacities.

6 CONCLUSION

“Recovery with Greater Resilience” is the theme for 2018/19 Budget, emphasizing that we cannot rebuild Tonga in our own strength alone, post Tropical cyclone Gita, but in a cooperative spirit as demonstrated by the Mate Ma’a Tonga team during the Rugby League World Cup 2017. *Psalm 46*, as referred to by HM set the underlying tone; *“our refuge and great source of strength in times of trouble. A very present help that we may confide in him – powerful and effectual in straits and difficulties.”* From there, Government together with all the people of Tonga and our development partners shall walk hand in hand to ensure a more progressive Tonga supporting higher quality of life for everyone (TSDf II) and ensure that no one is left behind (SDG). Surely, no single agency or group will be able to achieve recovery alone but a close collaboration is and will be very much essential to connect all responsibilities in recovery at all levels – Government, with necessary support from businesses and private sector, NGOs, communities and everyone. Hence, let us join hand in hand to rebuild our nation in a sustainable recovery custom with greater resilience at all levels, to get those who were affected into a better situation where all Tongans equally enjoy a sustainable and resilient economic growth.

PARTNERSHIP IN RECOVERY WITH GREATER RESILIENCE FOR TONGA!

7 APPENDICES

Tonga Selected Indicators, 2009/10-2016/17

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16p	2016/17f
(Annual Percentage change)								
Output and prices 1/								
Real GDP	3.3	2.9	0.8	0.7	2.1	3.7	3.4	3.0
Consumer prices (period average)	1.7	6.0	3.3	0.7	2.2	0.2	-0.6	7.3
Money and credit (end-period) 2/								
Broad money (M2) % growth	5.1	2.6	-2.0	7.3	8.1	2.4	12.6	11.4
Domestic credit	-11.5	-11.5	-16	-0.4	9.2	11.7	18.2	13.3
Private sector credit 3/ % growth	-15.5	-9.2	-9.6	-7.8	-0.6	8.9	19.8	22.8
Balance of payments (OET Basis)								
Exports, f.o.b.	11.4	11.3	8.8	12.3	15.8	15.3	15.4	23.9
<i>of which: Squash exports</i>	<i>0.5</i>	<i>0.7</i>	<i>2.2</i>	<i>2.4</i>	<i>2.9</i>	<i>1.8</i>	<i>3.7</i>	<i>4.3</i>
Imports, f.o.b.	-208.0	-229.6	-247.8	-260.9	-261.7	-306.3	-322.1	-367.8
Services (net)	-7.9	5.0	-4.4	6.3	-3.0	-7.3	16.9	26.4
Income (net)	5.3	4.9	5.6	0.9	8.5	13.4	4.3	-16.4
Services and Income (net)	-2.6	9.9	1.2	7.2	5.5	6.1	21.2	10.0
Transfers (net)	166.8	136.5	182.3	174.8	200.6	209.6	283.8	342.1
<i>of which: Private transfer receipts</i>	<i>157.5</i>	<i>138.9</i>	<i>156.8</i>	<i>209.5</i>	<i>208.9</i>	<i>273.2</i>	<i>329.3</i>	<i>395.2</i>
Current account balance	-32.4	-72.0	-55.4	-66.5	-39.8	-75.3	-1.7	8.2
<i>(In percent of GDP)</i>	<i>-4.5%</i>	<i>-9.3%</i>	<i>-6.9%</i>	<i>-8.5%</i>	<i>-4.9%</i>	<i>-8.9%</i>	<i>-0.2%</i>	<i>0.9%</i>
Overall balance	34.2	33.2	42.4	17.2	11.2	41.2	65.2	53.0
Gross international reserves (end-period)								
In millions of pa'anga	170.5	203.8	246.1	263.3	274.4	289.7	354.9	407.9
In months of imports cover	7.1	7.7	8.5	9.1	9.1	8.1	7.2	7.1
External debt 3/								
External debt/GDP (%)	32.1%	35.5%	40.4%	44.2%	42.0%	44.2%	43.7%	43.5%
Exchange rate (period average)								
T\$ per US\$ (end-period)	1.93	1.84	1.70	1.73	1.81	1.95	2.22	2.21

1/ Sources for Output and Prices: Statistics Dept & MOFE

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

3/ Sources for External Debt: MOFE

Tonga Domestic Exports by HS Section, 2009/10 - 2016/17

HS Code SECTION ITEM	2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16p		2016/17p	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
Live Animals; Animal Products	9,857	64.3	9,905	49.9	9,277	36.6	8,029	35.1	6,147	28.3	12,994	46.2	8,438	31.1	9,633	33.5
Vegetable Products	4,019	26.2	8,056	40.5	10,593	41.8	11,393	49.7	12,630	58.1	11,896	42.3	15,560	57.4	17,583	61.2
Prepared Foodstuff; Beverages, Tobacco	216	1.4	240	1.2	358	1.4	494	2.2	461	2.1	717	2.6	1,211	4.5	2,255	0.8
Products of the Chemical Or Allied	585	3.8	646	3.3	367	1.4	462	2.0	596	2.7	563	2.0	494	1.8	410	1.4
Wood and Articles of Wood;	322	2.1	433	2.2	416	1.6	424	1.9	760	3.5	986	3.5	784	2.9	742	2.6
Miscellaneous Manufactured Articles	22	0.1	5	0.0	27	0.1	112	0.5	91	0.4	33	0.1	160	0.6	156	0.5
Works of Art, Collectors Pieces and Antiques	17	0.1	56	0.3	144	0.6	26	0.1	1	0.0	2	0.0	445	1.6	1	0.0
Other Exports	289	1.9	526	2.6	4,173	16.5	1,963	8.6	1,045	4.8	909	3.2	0	0.0	0	0.0
TOTAL	15,327	100.0	19,869	100.0	25,354	100.0	22,901	100.0	21,731	100.0	28,100	100.0	27,093	100.0	28,751	100.0

p: provisional numbers

Source: Statistics Department

Annual Average Consumer Price Index for 2010 - 2017, Base Period (October 2010 = 100)

	All Items	Food	Housing	H/Hold goods	Clothing and	Transporta tion	Tobacco and	Misc. Goods &	Imported Items	Local Items
Weight.	100.0	45.8	2.5	20.8	3.2	11.9	6.0	9.8	57.8	42.2
2010	98.3	98.3	102.1	99.3	99.8	100.5	93.7	99.4	98.1	98.3
2011	104.4	104.7	99.8	101.6	104.6	112.6	101.6	101.7	106.1	102.2
2012	105.7	106.4	99.6	103.4	104.6	113.0	102.4	102.1	107.4	103.1
2013	106.4	108.2	100.7	103.4	104.6	113.1	99.8	102.5	109.0	103.0
2014	109.1	112.2	101.4	104	119.1	112.8	100.4	105.3	112.3	104.8
2015	108	114.3	101.3	98.3	129.4	99	106.3	105.9	108.4	107.4
2016	110.7	115.8	103.5	98.5	138.6	96.1	128.4	113.2	107.8	114.8
2017	119.0	125.7	114.0	102.4	138.8	104.2	157.5	112.1	117.9	120.5

Source: Statistics Department

Annual Percentage Change in CPI for December month 2010 - 2017

	All Items	Food	Housing	H/Hold goods	Clothing and	Transporta tion	Tobacco and	Misc. Goods &	Imported Items	Local Items
Weight.	100.0	45.8	2.5	20.8	3.2	11.9	6.0	9.8	57.8	42.2
2010	5.0	3.8	-3.1	1.6	-0.6	4.4	24.0	-5.5	7.9	0.4
2011	3.8	3.2	0.0	3.8	4.6	8.8	1.8	2.6	5.9	1.0
2012	2.5	6.0	0.4	-1.8	0.0	1.7	0.2	-0.2	2.3	2.8
2013	0.8	1.0	1.4	2.4	0.0	-0.8	-2.0	0.8	1.4	0.0
2014	0.2	1.0	-0.3	-1.6	16.2	-5.4	-0.8	3.1	0.5	-0.2
2015	-1.2	0.2	0.4	-5.9	8.9	-8.2	-0.8	-0.1	-4.9	4.4
2016	6.7	6.3	2.3	2.5	4.0	4.5	29.9	6.9	6.9	6.4
2017	5.5	6.0	12.6	3.6	2.0	5.3	17.4	-2.1	7.4	3.0

Source: Statistics Department

Exports by Institutional Sector, 2009/10 - 2015/16

INSTITUTIONAL SECTOR	2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Private Sector	15,327	100	19,863	100	25,343	100	22,866	99.8	21,705	99.9	28,030	99.6	36,902	98.8
Government Sector	0	0	6	0	6	0	2	0.0	21	0.1	23	0.1	251	0.7
Quasi-Government Sector	0	0	0	0	5	0	33	0.1	8	0.0	82	0.3	203	0.5
TOTAL	15,327	100	19,869	100	25,354	100	22,901	100.0	21,734	100	28,135	100	37,357	100

Source: Statistics Department

Exports by Country of Destination, 2009/10 - 2016/17

COUNTRY	2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
New Zealand	3,264	21.3	3,269	16.5	4,801	18.9	6,550	28.6	7,184	33.1	7,049	25.1	11,888	27.2	13,745	29
Australia	693	4.5	581	2.9	4,622	18.2	1,437	6.3	2,002	9.2	3,200	11.4	8,799	20.1	10,521	22
Fiji	18	0.1	318	1.6	697	2.7	200	0.9	169	0.8	186	0.7	503	1.1	968	2
Mainland USA	2,551	16.6	2,685	13.5	2,651	10.5	3,590	15.7	3,359	15.5	5,514	19.6	11,749	26.8	9,462	20
Samoa	492	3.2	543	2.7	375	1.5	479	2.1	746	3.4	1,137	4.0	-	-	-	-
Japan	517	3.4	2,862	14.4	6,293	24.8	2,754	12.0	2,710	12.5	3,361	11.9	3,776	8.6	4,404	9
Korea	369	2.4	140	0.7	1,548	6.1	2,020	8.8	2,232	10.3	590	2.1	1,549	3.5	2,112	4
Singapore	458	3.0	2	-	30	0.1	171	0.7	0	0.0	4	0.0	2	0.0	2	0
American Samoa	178	1.2	213	1.1	282	1.1	323	1.4	50	0.2	453	1.6	-	-	-	-
Hong Kong	6,433	42.0	7,538	37.9	2,355	9.3	3,579	15.6	2,397	11.0	5,368	19.1	28	0.1	23	0
All other Countries	399	2.6	1,719	8.7	1,701	6.7	1,799	7.9	884	4.1	1,273	4.5	5,488	12.5	6,303	13
TOTAL	15,327	100.0	19,869	100.0	25,354	100.0	22,901	100.0	21,734	100.0	28,135	100.0	43,782	100.0	47,540	100

Source: Statistics Department

Imports by Main HS Section, 2009/10 - 2016/17

HS Code SECTION ITEM	2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
1.Live Animals/Animal Products	39,502	13.8	40,464	13	39,778	12	43,922	13	33,361	13	46,987	11	48,451	17	50,951	11
2.Vegetable Products	9,347	3.3	10,216	3	10,536	3	10,838	3	8,157	3	11,341	3	14,588	5	14,580	3
3. Prepared Foodstuff; Beverages & Tobacco	45,633	16.0	39,041	12	47,152	14	48,283	14	36,701	14	55,893	13	68,165	24	68,075	15
4. Mineral Products	64,715	22.6	80,726	25	88,675	26	82,697	24	61,899	24	88,805	21	83,105	30	80,146	17
5. Products of the Chemical or Allied	13,684	4.8	13,675	4	14,794	4	14,346	4	12,927	5	15,701	4	20,121	7	17,751	4
6. Wood and Articles of Wood	7,164	2.5	11,243	4	9,434	3	8,063	2	6,700	3	13,763	3	16,433	6	19,888	4
7. Pulp of Wood and Other Fibrous Cellulosic Material	9,148	3.2	10,302	3	12,139	4	12,980	4	7,568	3	10,944	3	12,276	4	9,593	2
8. Base Metals & Articles of Base Metal	13,373	4.7	26,286	8	20,563	6	15,214	4	12,921	5	20,203	5	109	0	35,727	8
9. Machinery and Mechanical Appliance	39,244	13.7	41,372	13	46,895	14	41,744	12	35,061	13	74,142	17	279	0	93,940	20
10. Miscellaneous Manufactured Articles	4,838	1.7	5,415	2	6,850	2	10,281	3	5,319	2	10,952	3	13,515	5	15,779	3
11. Vehicle, Aircraft, Vessel & Associated Transport Equipment	15,908	5.6	16,110	5	15,516	5	19,394	6	17,478	7	40,430	9	44	0	49,211	11
12. Works of Art, Collectors Pieces	4,073	1.4	1,194	0	1,074	0	7,948	2	68	0	17	0	37	0	25	0
13. Other Imports	19,126	6.7	21,583	7	32,005	9	29,957	9	23,281	9	39,681	9	3,408	1	3,013	1
TOTAL	285,754	100	317,628	100	345,411	100	345,662	100	261,441	100	428,859	100	280,527	100	458,682	100

Source: Statistics Department

Imports by Institutional Sector, 2009/10 - 2015/16

INSTITUTIONAL SECTOR	2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
Private Sector	277,502	97.1	297,987	93.8	300,026	86.9	308,225	89.2	245,062	86.5	353,566	82.4	394,153	89.7
Government Sector	5,120	1.8	9,227	2.9	23,737	6.9	21,284	6.3	9,593	3.4	15,655	3.7	21,134	4.8
Quasi-Government Sector	3,133	1.1	10,414	3.3	21,649	6.3	15,579	4.5	28,582	10.1	59,639	13.9	24,262	5.5
TOTAL	285,754	100	317,628	100	345,411	100	345,662	100	283,237	100	428,859	100	439,549	100

Source: Statistics Department

Imports by Country of Origin, 2009/10 - 2016/17

COUNTRY	2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
New Zealand	88,715	31.0	107,985	34	100,067	29	101,254	29	107,342	29	122,470	30	149,427	32	156,869	31
Australia	32,714	11.4	23,736	8	19,553	6	17,938	5	20,562	6	24,312	6	32,750	7	38,010	8
USA	41,273	14.4	35,741	11	46,652	14	40,695	12	39,635	11	46,570	11	40,698	9	50,011	10
China	31,007	10.9	25,861	8	29,260	9	27,878	8	20,424	6	36,049	9	60,707	13	56,603	11
Indonesia	3,700	1.3	3,965	1	6,157	2	4,954	1	5,480	1	6,431	2	7,715	2	7,450	1
Fiji	31,007	10.9	25,861	8	29,260	9	27,878	6	31,257	9	34,921	9	92,199	20	57,933	12
Japan	6,844	2.4	8,848	3	17,175	5	20,275	29	15,501	4	35,709	9	28,438	6	42,146	8
Singapore	50,039	17.5	73,804	23	78,725	23	81,146	24	82,909	23	63,965	16	30,236	7	56,471	11
Others	18,297	6.4	18,546	6	22,339	7	31,949	9	42,649	12	35,337	9	19,337	4	34,634	7
TOTAL	285,754	100	317,628	100	345,411	100	345,662	100	365,760	100	405,764	100	461,508	100	500,128	100

Source: Statistics Department

Tonga Balance of Payment 2009/10-2016/17

<i>(In millions of pa'anga, unless otherwise indicated)</i>	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Balance of Trade	-196.6	-218.3	-239	-248.6	-245.9	-290.9	-306.7	-343.9
Exports, f.o.b.	11.4	11.2	8.8	12.3	15.7	15.3	15.4	23.9
<i>of which: Squash exports</i>	0.5	0.7	2.2	2.4	2.9	1.8	3.7	4.3
Imports, f.o.b.	208	229.6	247.7	260.9	261.7	306.3	322.1	367.8
Services (net)	-7.9	4.9	-4.4	6.3	-3.1	-7.3	16.9	26.4
Receipts	71.8	89.0	99.4	125.2	109	99.2	138.7	169.1
<i>of which: Tourism receipts</i>	50.1	60.9	61.3	71.5	80.3	63	85.1	108.3
Payments	79.8	84.0	103.7	118.8	112.1	106.5	121.8	142.7
Income (net)	5.3	4.9	5.6	0.9	17.0	13.4	4.3	-16.4
Receipts	14.6	13.1	13.3	11.7	34.4	26	20.9	17.3
Payments	9.4	8.2	7.7	10.8	17.5	12.6	16.6	33.8
Current Transfers (net)	166.9	143.9	182.3	174.8	192.1	209.5	283.7	342.1
Official transfers (net)	22.0	6.2	44.0	2.3	21.7	41.9	80.8	87.4
Private transfers (net)	144.9	137.7	138.3	172.5	170.3	167.6	203.2	254.7
Official transfer receipts	25.8	8.3	45.5	3.5	23	43.1	82.6	87.9
Official transfer payments	3.8	2.1	1.5	1.2	1.3	1.2	1.8	0.5
Private transfer receipts	157.5	146.5	156.8	209.5	208.9	215.1	262.8	311.1
Private transfer payments	12.6	8.8	18.5	37	38.6	47.5	59.6	56.4
Current account balance	-32.3	-64.6	-55.5	-66.6	-39.9	-75.3	-1.8	8.2
(Percent of GDP)	-4.5%	-9.3%	-6.9%	-8.2%	-4.9%	-9.1%	-0.2%	0.9%
Capital account balance	37.8	118.9	87.6	88.7	101.2	67.2	15.1	29.8
Official capital (net)	8.4	63.5	55.1	33.5	17.3	9	6.9	9.7
Official capital inflows	22.8	73.1	61.6	38.2	24.6	13.6	6.9	9.8
Official capital outflows	14.4	9.6	6.5	4.7	7.3	4.6	0.0	0.1
Private capital (net)	29.4	55.4	32.5	55.2	83.9	58.2	8.2	20.1
Private capital inflows	37.9	77.7	45.2	71.5	101.5	75.5	10.5	22.8
Private capital outflows	8.5	22.3	12.7	16.3	17.6	17.3	2.3	2.7
Other items (net)	28.8	-21.4	6.2	-4.8	-49.8	-6.4	-21	-57.9
Overall balance	34.3	32.9	38.3	17.3	11.5	41.2	65.2	53.1
Memorandum items:	164.1	153.8	183.6	182.1	205.8	215.6	305.2	352.0
Service, income, and transfers (net)	397.3	366.2	490.4	520.0	566.5	593.1	785.6	906.2
Receipts	269.7	256.9	315.0	349.9	375.3	383.4	505.0	585.4
Payments	105.6	103.1	131.4	167.8	169.5	167.8	199.8	233.4
Gross official foreign reserves (TOP million)	170.5	203.8	246.1	263.3	274.4	289.7	354.9	407.9
Months of Import cover	7.1	7.7	8.5	9.1	9.1	8.1	7.2	7.4

Source: NRB

Tonga: Monetary Survey, 2009/10–2016/17

(In millions of Pa'anga, unless otherwise indicated)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Net foreign assets	164.8	215.2	235.3	258.6	265.9	285.9	338.2	409.9
Foreign assets	186.7	221.6	251.0	268.8	281.7	297.1	373.3	434.4
Foreign liabilities	-21.9	-6.5	-15.7	-10.2	-15.8	-11.2	-35.1	-24.5
Net domestic assets	126.6	84.1	59.1	56.4	74.2	62.0	53.6	26.0
Net domestic credit	243.1	208.4	165.5	167.4	177.8	206.0	247.0	278.0
Government (net)	-29.1	-32.5	-47.1	-29.2	-34.1	-26.9	-29.4	-51.5
Non-financial public enterprises	19.6	13.2	10.1	13.1	36.6	41.8	40.4	42.8
Private sector	252.6	227.7	202.5	183.5	175.3	191.1	236.0	286.7
Non-monetary financial institutions 1/	-8.1	-10.9	-7.2	-8.8	-4	-3.9	-3.8	-4.2
Other items (net)	-108.4	-113.4	-99.2	-102.2	-99.6	-140.1	-189.6	-247.8
Total domestic liquidity (M2)	291.5	299.2	294.4	314.9	340.0	348.0	391.8	436.6
Narrow money (M1)	90.1	96.9	119.3	152.1	174.6	188.2	216.5	237.9
Currency outside banks	26.8	27.3	31.3	32.1	40.1	45.4	48.5	61.9
Demand deposits	63.3	69.7	88.0	120.0	134.4	142.7	168.0	176.0
Quasi money	201.4	202.3	175.1	162.7	165.4	159.8	175.3	198.1
Savings deposits	46.4	51.0	41.4	43.0	44.2	49.7	59.4	63.8
Term deposits	142.9	139.5	121.8	110.1	109.2	98.6	103.7	124.4
Foreign currency accounts	12.0	11.8	11.9	9.7	12.0	11.5	12.2	9.8
Annual Percentage Change								
Net foreign assets	35.9	30.6	9.3	9.9	2.8	7.5	18.3	21.2
Foreign assets	21.2	18.7	13.3	7.1	4.8	5.5	25.6	16.4
Foreign liabilities	-33.1	-70.3	141.5	-35.0	54.9	-29.1	213.4	-30.2
Net domestic assets	-18.9	-33.6	-29.7	-4.6	31.6	-16.4	-13.5	-51.5
Private sector	-16.6	-9.9	-11.1	-9.4	-4.5	9.0	23.5	21.5
Total domestic liquidity (M2)	5.1	2.6	-1.6	7.0	8.0	2.4	12.6	11.4
Narrow money (M1)	15.7	7.5	23.1	27.5	14.8	7.8	15.0	9.9
Quasi money	1.0	0.4	-13.4	-7.1	1.7	-3.4	9.7	13.0
In Us dollars								
Net foreign assets	82.4	126.6	130.7	141.8	147.7	135.6	153.2	186.3
Foreign assets	93.4	130.4	139.4	147.4	156.5	140.9	169.1	197.5
Foreign liabilities	-11.0	-3.8	-8.7	-5.6	-8.8	-5.3	-15.9	-11.1
Memorandum items:								
Velocity (GDP/average M2)	2.4	2.6	2.7	2.5	2.4	2.4	2.3	2.2
Exchange rate (pa'anga per U.S. dollar; end period)	2.0	1.7	1.8	1.8	1.8	2.1	2.2	2.2

Source: NRBT