GOVERNMENT OF TONGA

"Economic and Financial Update"

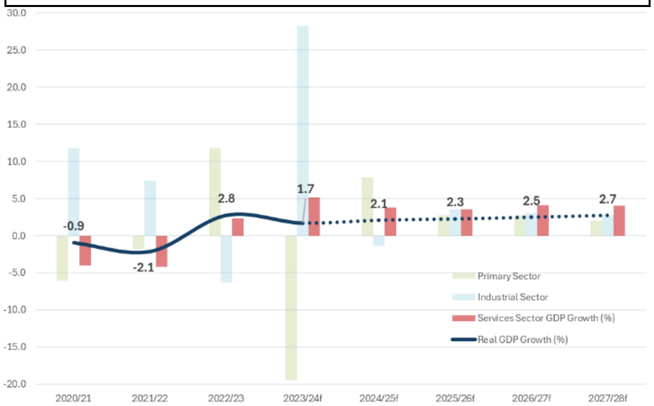
Half Year Report FY2026

Figures correct as of 31st December 2025

A. ECONOMIC UPDATE

Economic Activity Indicators	Annual				
	FY2022	FY2023	FY2024	FY2025	FY2026
GDP Growth (%)	-2.3 *Actual*	2.8 *Actual*	1.7 *Provisional*	2.1 *Forecast*	2.3 *Forecast*
CPI (%) inflation	6.8	12.6	8.0	3.0	3.1 *(Dec)*
Foreign Reserve($m)	871.2	921.4	924.3	961.7	961.7 *(Dec)*
Remittance($m)	472.3	529.2	521.3	559.4	559.7 *(Nov)*

Headline GDP growth & Sector GDP growth (%)



GDP Overview: Tonga's economy continues to expand steadily, with inflation declining recently although cost-of-living pressures remain elevated. However, the economy remains vulnerable to external shocks, with the developing conflict in the Middle East likely to contribute to renewed inflationary pressure going forward.

In FY2025, overall growth of 2.1 percent is expected, with the moderate recovery driven by construction, services, and manufacturing. However, global risks to trade continue to threaten economic stability through import price volatility, while the expansion of labour mobility schemes, though beneficial for household incomes, are impacting Tonga's local workforce and subsequently the domestic economic activity.

In FY2026, a projected growth rate of 2.3 percent is expected. However, this forecast growth rate represents a downgrade relative to that previously expected as part of the FY2025 Budget Statement growth forecasts (2.6 percent). This is due to delays in the delivery and implementation of large infrastructure development projects and initiatives across sectors.

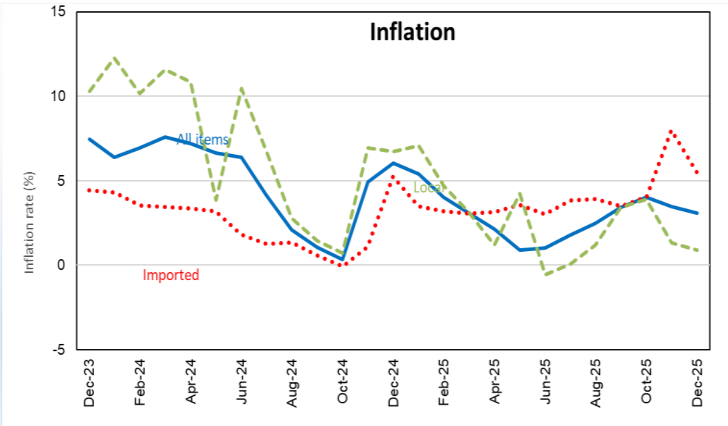
Primary Sector: Growth declined in FY2024 by 19.4 percent across both the *agriculture* and *fisheries* sectors due to adverse weather patterns. In FY2025 and continuing into FY2026 so far, the sector has rebounded, with a FY2025 growth rate of 2.2 percent, and a forecast growth rate of 2.8 percent for FY2026. The recovery was initially driven by the agriculture sub-sector, supported by favourable weather conditions, infrastructure investments, and replanting programs, while in FY2026 the fisheries sector play a greater role as a result of targeted investment in facilities such as the

Tu'imatamoana Wharf upgrade. This positive trend is expected to continue over the forecast period, although the impact of labour mobility schemes on both labour supply and the increasing volume of fallow land, remains a concern.

Industrial Sector: Strong growth in FY2025 has continued in FY2026 so far, primarily attributed to a result of ongoing major *construction* projects. The pipeline for major projects, including the SECURE bridge, is expected to drive future growth in the forecast period.

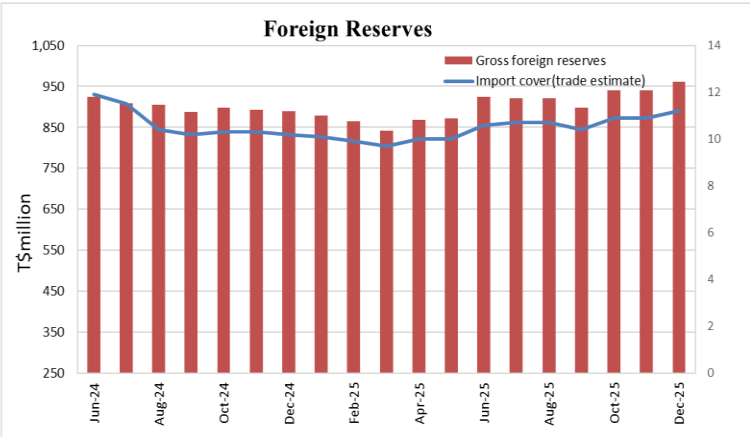
Services Sector: Strengthened revenue administration and an increased public service sector has contributed to sector growth in FY2025 and FY2026 so far, with a positive outlook for the forecast period driven by the expected expansion of the *tourism* and *wholesale* sectors.

Inflation: Annual headline inflation moderated to 3.1 percent in Dec 2025, below the 5 percent reference rate.

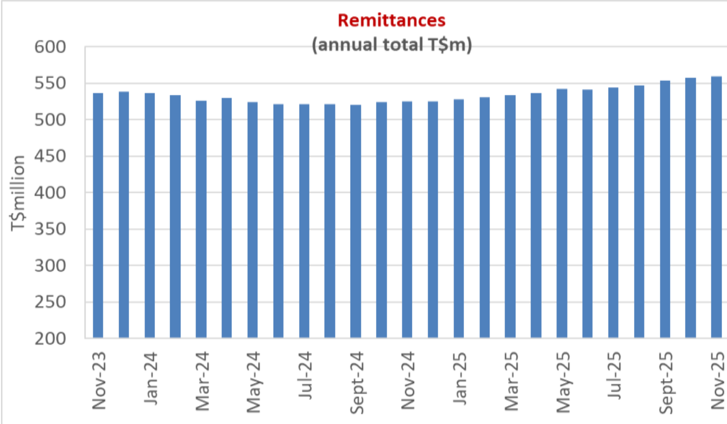


Imported inflation contributed most to headline, which rose by 5.5 percent driven by major components such as *imported food items, clothing and footwear,* and *household items.* Local inflation moderated a growth of 0.9 percent driven by *food and alcoholic beverages, passenger transport, communication, restaurants and hotels and health care.*

Foreign Reserves: Foreign reserves increased to $961.7m in December 2025, equivalent to 11.2 months of import cover. This was driven by a significant rise of $21.4m in the month of December 2025. The level of foreign reserves remains comfortably above the International Monetary Fund (IMF)'s recommended 7.5 months of import coverage, and well above the minimum adequacy threshold of 3–4 months. Foreign reserves continue to be supported by strong inflows of budget support, grants, and remittances.



Remittances: As of November 2025, total annual remittances amounted to $559.7 m, reflecting a 6.5 percent increase from $524.9 m in the previous year. The growth was primarily driven by higher transfers associated with annual church events and holiday-related festivities.



B. FISCAL SUMMARY

Fiscal Balance: At the end of December 2025, marking the mid-year point of FY2026, the Government recorded a fiscal surplus of $29.1m. This represents an improvement from the $3.3m deficit in the same period of FY2025. The surplus reflects strong revenue inflows, particularly from current grants, and moderate expenditure execution in the first half of the year. Capital expenses have been slower than anticipated but is expected to pick up as projects progress.

Table 1: Government Finance Statistics (GFS) Summary Table ($m)

Key Indicators	(T$m) December FY2025	Budget Est FY2026	Total July - Dec FY 2026	Variance $	Variance %
FISCAL INDICATORS *(Government Financial Statistics (GFS) Basis)*					
Revenue	**267.3**	**929.7**	**295.0**	**27.6**	**32%**
Tax	164.8	347.1	162.8	(2.0)	47%
Grant *(cash grants)*	62.6	509.2	90.9	28.3	18%
Current Grant	*14.4*	*120.2*	*65.4*	51.0	54%
Capital Grant	*48.2*	*389.0*	*25.5*	(22.7)	7%
Other Revenue *(non - tax)*	40.0	73.4	41.3	1.3	56%
Expenses	**240.0**	**617.4**	**221.4**	**(18.6)**	**36%**
Compensation of Employees	90.5	193.8	89.3	(1.2)	46%
Use of Goods and Service	103.0	313.3	101.6	(1.3)	32%
Interest	3.2	5.9	2.7	(0.5)	46%
Subsidies	7.6	15.9	4.6	(3.0)	29%
Grant	17.8	38.4	6.7	(11.2)	17%
Social benefits	10.2	32.2	10.3	0.1	32%
Other Expenses	7.7	17.8	6.3	(1.4)	35%
Gross Operating Balance	**27.3**	**312.3**	**73.5**	**46.2**	**24%**
Net Acquisition of Non-financial Assets	30.7	256.9	44.4	**13.8**	**17%**
Net Lending/Borrowing Requirement	**(3.3)**	**55.5**	**29.1**	**32.5**	**53%**
Financing	**3.3**	**(55.5)**	**(29.1)**		
FISCAL ANCHORS					
Compensation of Employees to domestic revenue to be less than 53% (annual target)					
quarterly performance (%)	44%	46%	44%	-	

Table 1: *Source:* MOF, NRBT & MTED

Total Revenue: For the first half of FY2026, total revenue reached $295.0m, representing approximately 31.7 percent of the full-year budget target of $929.7m. The collection at mid-year represents a smaller share of the full-year target, reflecting the gradual timing of revenue inflows across fiscal year. Strong inflows of Current grants totalled $65.4m, while capital grants were $25.5m. As of mid-year, $162.8m *(46.9 percent)* of the full-year tax revenue target, has been collected. This is slightly below last year's level. Non-tax revenue of $41.3m remained strong, reflecting steady administrative collections and ongoing domestic economic activity.

Expenditure: For the first half of FY2026, total expenditure reached $221.4m *(35.9 percent of the annual budget)*, indicating moderate budget execution. Compensation of employees was $89.3m, with the ratio to domestic revenue at 44 percent, remaining under the annual target of 53 percent. This reflects slower recruitment of vacant positions and controlled wage spending. Spending on goods and services totalled $101.6m, while interest payments remained low at $2.7m. Subsidies, Grants and Social benefits together amounted to $21.6m, reflecting careful and controlled disbursement of programs. Overall, expenditure execution has been moderate, allowing the Government to maintain fiscal discipline while providing room to support key priorities and planned development initiatives in the second half of the year.

The Net Acquisition of Non-Financial Assets: By December FY2026, the net acquisition of Non-Financial Assets recorded an actual spending of $44.4m, up from $30.7m in the previous financial year. Under this, the major component spent was $33.2m on Buildings and Structures – such as upgrades to the wharf, foreshore and drainage - and $10.7m was spent on machinery and equipment and other fixed assets. By the end of FY26, spending is projected to rise to $256.9m due to further developments in infrastructure projects and higher investment in machinery and equipment.

Net Lending/Borrowing and Financing: The net lending position was reported at $29.1m, reflecting the remaining balance after non-financial assets expenses. This surplus was primarily used to reduce external debt collections, where external loan payments amounted to $23.6m. Financial assets were also reduced by $16.3m, however, these payments were offset by the issuance of domestic debt securities of $13.7m. Overall, the Government's financing aims to conduct prudent financial management, strengthen liquidity, and commit to maintaining sustainable debt levels over the medium term.

C. BUDGET UPDATE

(i) Recurrent Budget

Recurrent Overall Performance:

The budget position at the end of the FY2026 mid-term (Dec 2025), registered a surplus of $34.4m, which is lower than the forecasted $39.1m for the same period. This stems from lower execution of the budget largely from slow staff recruitment i.e., the number of vacant positions was at 869 in the beginning of the FY compared to 1,112 at the end of Dec 2025 (including newly created positions sourced from abolishing existing positions). In addition, there were lower than projected operational spending, and late input of domestic revenue figures into the financial management system (which means the budget surplus could be higher and closer to forecast). Nevertheless, the financing requirements remains favourable, with a further increase in the level of government's cash reserves by $44.4m at the end of the first half of the year, and by the end of the year FY2026, the estimated balance is projected at a recurrent budget deficit of $26.9m – an improvement by $2.2m from the originally estimated deficit of $29.1m.

Table 2: Budget Overall Summary ($m)

RECURRENT BUDGET MID-TERM PERFORMANCE REPORT: JULY-DECEMBER 2025/26	Jul-Dec 2024 Actuals 2024/25	Original Estimates 2025/26	Revised Budget w/Virements	Jul-Dec 2025 Forecast 2025/26	Jul-Dec 2025 Actuals 2025/26	Budget Execution (Jul-Dec) 2025/26	Estimated Outturn 2025/26	*Variance (Outturn vs. revised budget)*	Provisional Actuals 2024/25	*Variance (FY2026 vs FY2025 Annual Actuals)*
	$m	$m	$m	$m	$m	%	$m	*$m*	$m	*$m*
Revenues	**217.7**	**560.4**	**560.4**	**265.7**	**247.3**	**44%**	**546.2**	***-14.2***	**466.1**	***80.1***
Domestic Revenues	203.4	440.2	440.2	200.7	181.9	41%	426.5	*-13.6*	374.5	*52.0*
Tax	**152.9**	**334.5**	**334.5**	**157.1**	**142.4**	**43%**	**328.2**	***-6.3***	**308.8**	***19.4***
Income Tax	32.4	78.7	78.7	31.8	33.2	42%	81.1	*2.4*	76.9	*4.2*
Trade Taxes	14.7	33.2	33.2	14.6	13.7	41%	29.8	*-3.4*	27.3	*2.5*
Tax on Goods & Services	73.6	145.0	145.0	73.7	68.8	47%	145.1	*0.1*	142.9	*2.2*
Excise Tax	32.2	77.6	77.6	37.0	26.8	35%	72.2	*-5.5*	61.6	*10.5*
Non-Tax	**50.5**	**105.6**	**105.6**	**43.6**	**39.5**	**37%**	**98.4**	***-7.3***	**65.8**	***32.6***
Fees & Licenses	10.7	44.9	44.9	17.1	13.6	30%	31.9	*-12.9*	20.5	*11.4*
Entrepreneurial& Property	27.7	39.5	39.5	23.5	25.3	64%	45.3	*5.8*	32.6	*12.7*
Miscellaneous	0.8	0.9	0.9	0.2	0.5	59%	0.8	*-0.1*	1.1	*-0.3*
Capital & Transfers	11.3	20.4	20.4	2.8	0.0	0%	20.3	*-0.1*	11.5	*8.8*
Budget Support	**14.4**	**120.2**	**120.2**	**65.0**	**65.4**	**54%**	**119.7**	***-0.6***	**91.6**	***28.1***
Expenditures	**214.0**	**589.5**	**589.5**	**226.6**	**212.9**	**36%**	**573.1**	***-16.4***	**442.8**	***130.3***
Wage Bill	90.3	196.3	197.3	98.6	90.7	46%	191.6	*-5.8*	183.6	*8.0*
Operations	90.2	217.1	216.3	88.1	82.1	38%	207.2	*-9.1*	188.8	*18.3*
Private Sector Development	3.3	56.4	56.4	0.0	0.0	0%	56.4	*0.0*	7.5	*48.9*
Assets	3.6	64.8	64.6	14.1	13.8	21%	60.9	*-3.8*	9.7	*51.2*
Debt	26.6	54.8	54.8	25.7	26.3	48%	57.1	*2.3*	53.2	*3.9*
Balance	**3.7**	**-29.1**	**-29.1**	**39.1**	**34.4**	**-119%**	**-26.9**	***2.2***	**23.4**	***-50.2***
Financing	**-3.7**	**29.1**	**29.1**	**-39.1**	**-34.4**	**-119%**	**26.9**	***-2.2***	**-23.4**	***50.2***
Bond Receipts	5.3	43.6	43.6	13.0	13.0	30%	43.6	*0.0*	15.0	*28.6*
Bond Payments	6.0	13.6	13.6	3.0	3.0	22%	13.6	*0.0*	16.8	*-3.2*
Cash Reserves	-3.0	-0.9	-0.9	-49.1	-44.4	4685%	-3.1	*-2.2*	-21.5	*18.4*

Recurrent revenues (excluding bond receipts) during Jul–Dec 2025 reached $247.3m, representing 44 percent execution against the original target of $560.4m. This performance was 7 percent or $18.4m below forecast. However, relative to the same period last year (Jul–Dec 2024), revenues were higher by $29.6m, largely driven by budget support inflows.

Recurrent expenditures on the other hand (excluding bond payments), totalled $212.9m, achieving 36 percent execution of the annual budget and performing 6 percent or $13.7m below forecast for the mid-term (Jul-Dec) FY2026. Year-on-year however, expenditures were moderately lower (-$1.1m), primarily from operational costs and private sector development funding disbursements which offset the high capital spending during FY2026 due to the commencement of the works on the construction of the Fanga'uta Lagoon Bridge.

1.1. Recurrent Revenue Performance

1.1.1. Domestic Revenues

Domestic revenues were significantly lower relative to mid-year expectations. Collections reached $181.9m, achieving 41 percent of the annual target execution and 9 percent below the mid-year forecast. Year-on-year, domestic revenues were also $21.5m lower particularly from collections recorded under taxes and capital & transfers (although seasonal). Nevertheless, not all revenues have been inputted into the financial management system for the Jul-Dec 2025 period, which may represent some of the gap.

Tax Revenues

Initial strategies/ assumptions to increase collection in tax revenues for FY2026 and over the medium-term were to have no increase in any tax rates, but rather improvements in tax compliance and administration efforts growth in domestic economic activities, robust remittances, stable domestic income levels (including the increased number of beneficiaries under the social welfare scheme monthly stipends), and a review of tax exemptions.

Mid-term performance FY2026, MORC has continued to implement tax compliance and administration efforts in FY2026 including digital modernization (online registrations, filing and payments), targeted compliance (audit capacity building), trade and customs facilitation (ASYCUDA) and data-driven enforcement (inter-agency coordination). Coupled with these efforts, is the continuous growth in real GDP, remittances increased by 6 percent year-on-year by Sept 2025 and increase in beneficiaries under the government's social welfare program (from 5,570 in the beginning of the FY to 5,949 by the end of Dec 2025) contributing towards higher income and consumption. The most recent policy review of tax exemptions however by the IMF/ PFTAC is currently being finalized. In terms of tax revenues performance, achieved $142.4m by end of the first half of the year, which is approximately 43 percent execution of the annual target and 9 percent lower than forecasted for the same period. At the end of the year FY2026, it is projected to reach $328.2m, which despite the slightly over-performance from some tax categories (Income Tax and Goods and Services Tax), overall tax revenues remain $6.3m below the annual target.

Key triggers include:

- **Income Tax**: Mid-year collection of $33.2m, essentially on forecast and modestly above prior year (+$0.8m). Full-year outturn expected at $81.1m, slightly above budget (+$2.4m) mainly driven by continued growth of large businesses activities and PAYE collections from the public sector.

- **Trade Tax**: Mid-year collection of $13.7m, 6 percent below forecast and below prior year (-$1.1m). Despite that the end of year outturn is forecasted at $29.8m, or an under-collection of the annual target by $3.4m, it remains higher year-on-year by $2.5m; indicating a continued growth of imports over time (13 percent increase year-on-year by Mar 2025) but rather the input/ import costs for businesses may have been under-estimated in the annual target.

- **Goods & Services Tax**: Collected $68.8m, which was 7 percent below forecast and significantly lower year-on-year (-$4.8m). Outturn projected at $145.1m, which is marginally above budget (+$0.1m), reflecting growth in collection from CT on domestic consumption in line with GDP growth and the ongoing implementation of the Electronic Sales Register System project.

- **Excise Tax**: Excise collections was lower than expectations at $26.8m, being 35 percent below forecast and $5.4m lower year-on-year. However, majority of the gap would be due to late recording of revenues instead of indicating lower imports of excised goods. Outturn projected for the year ending FY2026 is at $72.2m, and despite being $5.5m below the annual target, it remains relatively stable compared to last year's collection, which may indicate that the original target for the current FY may have over-estimated the performance of excised goods.

Non-Tax Revenues

Initial strategies/ assumptions for the expected higher collection in non-tax revenues for FY2026 and over the medium-term included a review of current public service fees and charges and continuous improvements in the dividend returns from public enterprises and the National Reserve Bank of Tonga (NRBT).

Mid-term performance FY2026, while a holistic review of government's service fees and charges has yet to formally progress, dividend returns from public enterprises are expected to meet target this FY and also from the NRBT. In terms of non-tax revenues performance, collection was at $39.5m, a 37 percent execution of the annual target and 10 percent below forecast for the mid-year. By the end of the fiscal year, non-tax revenues are projected at $98.4m, or $7.3m below budget.

Key elements include:

- **Fees & Licenses**: (30 percent execution of annual target, $4.1m lower than forecast) under-performed due to an over-estimation of transport and tourism related revenue estimates in comparison to past years' performance and that there were no policy changes. For instance, annual collection from motor licenses and registrations targeted $5.5m compared to an average collection per annum over the past three years at $2.8m. Assuming no policy change, similar identified revenue items are recommended to be reduced in line with past performance for the FY2027 projections.

- **Entrepreneurial & Property Income:** performed above forecast (+8 percent), driven by higher dividends from the NRBT, i.e., by the end of the mid-term government received $22.8m compared to a forecasted $20.0m. The remaining $10.0m is expected to be received during the second half of the fiscal year following policy triggers, totalling the NRBT dividends to $32.8m by the end of the fiscal year compared to a $30.0m target. In addition, are expected revenue arrears (est. $1.8m) from the previous year under the Forum Fishing Agencies (FFA) Treaty with the United States which was not budgeted for in the current year.

- **Capital & Transfers:** forecasted $2.8m during the mid-term period as debt repayments due from businesses that were affected by the 2006 riots but were delayed and expected to be received during the second half of the year rather. Thus, by the end of the year, total revenues under capital and transfers total to $20.3m in line with the annual target.

1.1.2. Budget Support

Initial strategies/ assumptions for the increase in budget support funds for FY2026 to $120.2m from $91.6m in the previous year, and over the medium-term are driven mainly from funding by the Australian Government and the New Zealand Government, supported by strengthened partnerships, and meeting key policy triggers under the budget support joint-policy reform matrix (JPRM) mechanism.

Mid-term performance FY2026, budget support receipts recorded $65.4m during the first half of the fiscal year inclusive of the ADB budget support for the current year and budget support carried forward from previous years but were recorded under the development budget. The total expected by the end of the fiscal year is broadly aligned with target at $119.7m.

1.2. Recurrent Expenditure Performance

Recurrent expenditures (excluding bond payments) were $212.9m by Dec 2025 against a revised budget of $589.5m (36 percent execution of the annual target and 6 percent below forecast for the mid-term). Total expenditure outturn projected by the end of Jun 2026 is at $570.8m, or $18.6m below the budget, driven primarily by under-spending in the operational and wage bill-related categories.

Table 3: Recurrent Expenditure by Major Category 2024-2026 ($m)

RECURRENT BUDGET MID-TERM PERFORMANCE REPORT: JULY-DECEMBER 2025/26 (by Category)	Jul-Dec 2024 Actuals 2024/25	Original Estimates 2025/26	Revised Budget w/Virements	Jul-Dec 2025 Forecast 2025/26	Jul-Dec 2025 Actuals 2025/26	Budget Execution (Jul-Dec) 2025/26	Estimated Outturn 2025/26	*Variance (Outturn vs. revised budget)*	Provisional Actuals 2024/25	*Variance (FY2026 vs FY2025 Annual Actuals)*
	$m	$m	$m	$m	$m	%	$m	*$m*	$m	*$m*
Established Staff	82.5	175.5	176.7	88.1	81.9	47%	171.2	*(5.5)*	167.7	*3.5*
Unestablished Staff	6.1	16.9	16.7	8.5	6.5	39%	16.1	*(0.6)*	12.3	*3.8*
Travel & Communications	9.9	13.9	16.2	7.5	8.2	59%	15.3	*(0.9)*	15.8	*(0.5)*
Maintenance & Operations	9.2	38.4	38.4	15.9	14.5	38%	35.8	*(2.6)*	28.3	*7.6*
Purchase of Goods & Services	38.7	87.9	87.5	37.9	32.7	37%	82.0	*(5.5)*	69.2	*12.8*
Grants & Transfers	31.2	67.2	67.2	25.7	25.7	38%	67.1	*(0.2)*	69.4	*(2.3)*
Development Duties	1.2	4.6	4.6	1.1	1.1	23%	4.5	*(0.1)*	3.6	*0.9*
Debt	32.6	68.4	68.4	28.7	29.3	43%	68.4	*(0.0)*	70.0	*(1.6)*
Contingency Fund	0.0	5.0	2.3	0.0	0.0	0%	2.3	*0.0*	0.0	*2.3*
Pension & Gratuities	1.7	3.9	3.9	2.1	2.2	58%	4.2	*0.3*	3.5	*0.7*
Assets	3.6	64.8	64.6	14.1	13.8	21%	60.9	*(3.8)*	9.7	*51.2*
Equity Payments	0.0	0.1	0.1	0.0	0.0	0%	0.1	*0.0*	2.5	*(2.4)*
Private Sector Development	3.3	56.4	56.4	0.0	0.0	0%	56.4	*0.0*	7.5	*48.9*
Grand Total	**220.0**	**603.0**	**603.0**	**229.5**	**215.9**	**36%**	**584.4**	***(18.7)***	**459.6**	***124.8***

Key expenditure headings:

- **Wage Bill[1]** – $90.7m spent during Jul-Dec 2025 (46 percent annual execution). Spending was below forecast by 8 percent or $7.9m largely due to slow recruitment of vacant positions the number of vacancies increased from 869 in the beginning of the FY to 1,112 at the end of Dec 2025 (including newly created positions sourced from abolishing existing positions). End-year projection of wage bill spending is at $191.6m, which although is an under-spending of the current year's budget by $5.8m, is $8.0m higher than last year's spending due to annual PMS awards, gratuity for members of parliament post-general election, gratuity for district and town officers and increased recruitment of daily paid labourers particularly in the health ministry.

[1] Includes established staff, unestablished staff and pensions & gratuities

- **Operations**[2] – $82.1m spent during Jul-Dec 2025 (38 percent annual execution). Spending was 7 percent lower than forecasted for the mid-term and $8.1m lower year-on-year. The primary causes include the spending of overseas missions (estimated at around $2.0m) that are yet to be inputted into the system, also savings of $0.5m under the allocation that was intended for the 150th anniversary of Tonga's constitution, and operations and utility costs that were lower than originally estimated. Furthermore, the estimated outturn for the end of the fiscal year 2026 is at $207.2m, which is $9.1m lower than the annual budget; largely due to the following:

    - slow progress of the biogas initiative under MAFF (estimated $1.5m on farming supplies but no spending to date)
    - savings of around $1.4m under MIA's allocation for land compensation that was initially aimed (as government's contribution) for the construction of integrated age care centers.
    - savings due to the royal agricultural show not being held at the outer-islands

  It was also noted that overseas travel expenditures were $3.5m lower during the Jul-Dec 2025 period compared to the same period last year due to increased controls; similar to spending on catering/refreshments was $0.5m in the current year's mid-term, which was less than half of the spending made in the same period last year.

- **Assets** – $13.8m spent during Jul-Dec 2025 (21percent annual execution). Spending was broadly in line with forecast for the mid-term, and $10.2m higher year-on-year largely due to the capital works on the construction of the Fanga'uta Lagoon Bridge. The estimated outturn for the year is total spending on assets at $60.9m, or $3.7m lower than budgeted mainly due to capital works of the ministry of health including the construction of health centers and the nursing school. Their total budget allocation is at $16.0m, of which by the end of the first half of the year, only $0.5m has been spent.

- **Private Sector Development** – No execution of the $56.4m annual allocation during the mid-year as arrangements with the TDB is yet to finalize. However, by the end of the fiscal year the budget is estimated to be fully spent.

- **Debt Service** – $26.3m spent during Jul-Dec 2025 (48 percent annual execution). Slight above-target by 2 percent compared to the forecast for the mid-year, but the annual allocation is expected to be spent in line with the original estimates.

Key expenditure headings by Ministry/ Department/Agency (MDA):

The mid-term execution of the recurrent budget for the period Jul–Dec FY2026 reflects overall expenditure execution of 36 percent[3] of the revised budget across MDAs. While execution levels vary significantly across MDAs, from 8 percent by Foreign Affairs to 64 percent by Tourism. The former is due to the late recording of spending of overseas missions to the treasury system, while the latter is the biannual grant disbursement to the Tonga Tourism Authority (TTA) and unbudgeted spending for the hosting of the 3rd Pacific Sustainable Tourism Summit held in Vava'u.

[2] Includes travel & communications, maintenance & operations, purchase of goods & services, grants & transfers, development duties, contingency fund and equity payments.
[3] Inclusive of bond payments under MOF

Execution performance at mid-year remains uneven across the administration, also reflects differences in expenditure profiles, procurement patterns and timing of service delivery. The pattern aligns with front-loaded preparatory processes and backend procurement that materialize later in the fiscal year particularly for capital works.

Table 4: Recurrent Expenditure by Ministry 2024-2025 ($m)

RECURRENT BUDGET MID-TERM PERFORMANCE REPORT: JULY-DECEMBER 2025/26 (by MDA)	Jul-Dec 2024 Actuals 2024/25	Original Estimates 2025/26	Revised Budget w/Virements	Jul-Dec 2025 Forecast 2025/26	Jul-Dec 2025 Actuals 2025/26	Budget Execution (Jul-Dec) 2025/26	Estimated Outturn 2025/26	*Variance (Outturn vs. revised budget)*	Provisional Actuals 2024/25	*Variance (FY2026 vs FY2025 Annual Actuals)*
	$m	$m	$m	$m	$m	%	$m	*$m*	$m	*$m*
Palace Office	2.5	5.0	5.0	2.6	2.3	47%	4.6	*(0.4)*	4.6	*0.0*
Legislative Assembly	10.2	16.1	16.1	7.1	6.9	43%	15.9	*(0.2)*	16.8	*(0.9)*
Audit Office	0.8	2.3	2.3	1.0	0.8	35%	2.0	*(0.3)*	2.1	*(0.1)*
Ombudsman	0.7	1.6	1.6	0.8	0.7	42%	1.5	*(0.1)*	1.5	*(0.0)*
Foreign Affairs	7.9	18.5	19.0	6.8	1.5	8%	18.7	*(0.3)*	14.8	*3.9*
His Majesty's Armed Forces	5.6	14.1	14.1	6.7	6.2	44%	13.0	*(1.1)*	12.0	*1.0*
Prime Minister's Office	6.9	13.2	14.5	7.9	7.1	53%	13.4	*(1.1)*	12.2	*1.2*
Finance	48.4	169.7	167.1	45.5	46.6	27%	165.8	*(1.3)*	111.8	*54.0*
Revenue & Customs	4.7	16.1	16.1	5.6	5.1	32%	15.3	*(0.8)*	10.7	*4.7*
Public Enterprise	0.8	2.1	2.1	1.0	0.8	41%	1.9	*(0.2)*	1.7	*0.2*
Trade & Economic Develop.	3.2	6.2	6.2	2.7	2.4	39%	5.8	*(0.4)*	7.4	*(1.6)*
Justice & Prisons	7.0	16.9	17.3	7.4	6.4	38%	16.1	*(1.1)*	13.9	*2.2*
Justice	4.0	7.4	7.8	3.8	3.2	43%	7.1	*(0.7)*	7.8	*(0.7)*
Electoral Commission	0.2	1.2	1.2	0.6	0.5	38%	1.0	*(0.3)*	0.5	*0.4*
Prison Department	2.8	8.2	8.2	3.0	2.8	33%	8.0	*(0.2)*	5.5	*2.5*
Attorney General's Office	1.4	3.3	3.4	1.5	1.4	43%	3.1	*(0.3)*	3.0	*0.1*
Police	7.8	19.0	18.8	9.1	9.2	48%	18.7	*(0.1)*	14.9	*3.8*
Health	31.3	80.5	80.0	28.6	28.5	35%	79.9	*(0.1)*	60.8	*19.1*
Education & Training	38.6	74.8	75.3	32.3	31.1	42%	74.0	*(1.2)*	73.9	*0.2*
Internal Affairs	7.6	23.2	23.2	10.8	10.4	45%	21.3	*(1.9)*	17.5	*3.8*
Agriculture, Forestry & Food	5.2	11.3	11.3	4.6	4.3	38%	9.3	*(2.1)*	12.6	*(3.4)*
Infrastructure	7.5	66.4	66.4	26.6	25.0	38%	64.0	*(2.4)*	24.2	*39.8*
Lands, Survey & Nat. Resources	3.0	6.3	6.3	3.2	2.7	43%	5.8	*(0.6)*	6.2	*(0.4)*
Public Service Commission	1.0	3.1	3.1	1.0	0.9	30%	3.0	*(0.1)*	2.0	*1.0*
Statistics Dept	1.3	2.9	2.9	1.2	1.1	37%	2.5	*(0.4)*	2.7	*(0.2)*
MEIDECC	4.2	10.8	10.8	5.1	4.3	40%	9.7	*(1.0)*	9.1	*0.7*
Fisheries	1.9	5.4	5.4	2.4	2.1	39%	5.0	*(0.5)*	5.6	*(0.6)*
Tourism	7.6	7.2	7.6	4.6	4.6	64%	7.4	*(0.2)*	11.5	*(4.1)*
Tonga Fire Services	2.5	5.4	5.4	2.6	2.7	50%	5.2	*(0.1)*	5.3	*(0.0)*
Anti-Corruption Commissioner	0.5	1.7	1.7	0.9	0.7	41%	1.5	*(0.2)*	1.1	*0.4*
Grand Total	**220.0**	**603.0**	**603.0**	**229.5**	**215.9**	**36%**	**584.4**	***(18.7)***	**459.6**	***124.8***

Based on mid-year performance and updated forward estimates, the FY2026 recurrent budget is projected to close marginally below plan. The estimated outturn of $584.4m represents a variance of $18.7m below the revised appropriations. Variances are generally modest at the agency level, indicating that virements incorporated during the year sufficiently aligned budgets with operational requirements.

The higher year-on-year spending of key service delivery agencies, notably Health, Education, Internal Affairs and Police, reinforces the long-term structural growth of the recurrent envelope. The expansion of Finance and Infrastructure outlays reflects increased administrative coordination and implementation of fiscal management reforms and public asset programs embedded within the recurrent budget. Finance's higher expenditures in FY2026 year-on-year includes the private sector development funds.

The current pattern of spending show that sector ministries delivering social services and infrastructure are becoming increasingly central to expenditure growth, which need to be aligned with medium-term development priorities. Furthermore, the relatively modest underspend against revised allocations indicates tighter budget alignment, further reinforcing the need for credible baseline forecasting. Also, the recurrent envelope is expected to remain under upward pressure with active policy measures required to manage wage-bill costs, operational expenditure and cross-ministerial program mandates. While the overall fiscal position remains manageable, the forward trajectory underscores the importance of expenditure prioritisation, improved costing and enhanced budget discipline for FY2027. Managing the recurrent baseline will be essential to safeguarding fiscal space for capital investment and development priorities in the medium term.

(ii) Development Budget

Table 5: Development Budget Performance FY2026 ($m)

Envelope	Approved Budget FY2025/26 ($m)	Actual December 2025 ($m)	Outturn FY2025/26 ($m)	Original Estimate vs Actual Dec 2026 (%)
Cash	145.9	44.0	101.3	30%
Inkind	243.9	95.5	166.8	39%
Grand Total	**389.8**	**139.5**	**268.1**	**36%**

Development Overall Summary

The Development Budget performance for FY2026 showed slow progress for the Development funding Projects. The total expenditure from July to December 2025 is at 36 percent of the budget execution, reflecting ongoing Projects are moving at a steady pace of implementation, while several newly large Projects had been approved during mid-year of the current financial year are still in preliminary and mobilizing stages such as releasing of funds for Project Execution.

The *cash* component achieved 30 percent of budget execution reflecting steady progress for Government Infrastructural Projects. This includes the Vava'u Hospital construction, Tonga Safe and Resilient School Project, TCRTP 2, National Museum, Tonga Volcanic Eruption Project, National Water Tank Project, and Affordable housing Project.

On the other hand, the *in-kind* utilized 39 percent of the Budget reflecting also similar progress with large Energy Projects such as the GREST Project, Nuku'alofa Network Upgrade Project, Tonga Renewable Energy Stabilization Project have been on hold. High level directives from Government and Development Partners have impacted large projects such as the New Fishing Vessels, Biogas Project, ADB Local Currency Bond and Sustainable Women's Entrepreneurship Financing Project. Other Projects have been slow on implementation includes the Integrated Aged Care Project, Hawaiki Cable Project, New Parliament Building, Tonga Coastal Resilience Project.

Given the steady progress, the expenditures are expected to pick up in the latter half of the financial year.

Table 6: Development Budget Performance by Ministry FY2026($m)

MDA	Provisional Actual FY2024/25 ($m)	Approved Budget FY2025/26 ($m)	Actual December 2025 ($m)	Outturn FY2025/26 ($m)	Original Estimate vs Actual Dec 2026
Attorney General's Office	0.2	0.4	0.2	0.2	**39.9%**
His Majesty's Armed Forces	10.5	3.0	1.1	2.4	**36.7%**
Legislative Assembly	0.5	10.6	2.7	5.7	**25.5%**
Ministry of Agriculture, Food & Forests	2.7	24.8	2.0	4.4	**8.0%**
Ministry of Education & Training	47.1	41.5	17.2	41.4	**41.4%**
Ministry of Finance	39.6	71.9	4.0	7.9	**5.6%**
Ministry of Fire&Services	1.2	2.8	2.0	2.0	**72.7%**
Ministry of Fisheries	4.1	32.1	0.3	0.5	**0.9%**
Ministry of Foreign Affairs	0.6	1.0	0.3	0.7	**31.3%**
Ministry of Health	12.4	16.6	6.6	13.8	**39.8%**
Ministry of Infrastructure	118.3	64.0	48.0	76.5	**75.0%**
Ministry of Internal Affairs	7.2	13.4	5.6	12.1	**42.1%**
Ministry of Justice and Prison	0.3	0.9	0.3	0.6	**31.0%**
Ministry of Lands, Survey, Planning and Natural Resources	6.8	11.2	8.5	20.4	**75.4%**
Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change	55.1	41.0	18.1	34.8	**44.2%**
Ministry of Police	0.8	1.8	1.1	2.1	**59.7%**
Ministry of Public Enterprises	18.4	36.0	13.0	26.5	**36.0%**
Ministry of Revenue & Custom	0.0	7.0	7.0	7.0	**100.0%**
Ministry of Tourism	1.2	0.3	0.3	0.3	**90.6%**
Ministry of Trade and Economic Development	0.2	2.5	0.1	0.1	**2.2%**
Ombudsman	0.0	0.0	0.0	0.0	**0.0%**
Palace Office	0.0	0.3	0.0	0.3	**0.0%**
Prime Minister's Office	6.9	5.0	0.7	7.6	**14.1%**
Public Service Commission	0.1	0.2	0.0	0.0	**7.0%**
Statistics Department	0.8	1.3	0.6	1.0	**42.4%**
Tonga Office of the Auditor General	0.2	0.3	0.0	0.0	**0.0%**
Grand Total	**335.0**	**389.8**	**139.5**	**268.1**	**35.8%**

Development Budget by MDA

The budget execution for MDAs were slowly progressing during the first half of the Financial Year reflecting key systematic matters that involved land issues, high level directives in Government and Development Partners on large, funded projects.

The Ministry of Finance was provided with the ADB local currency bond issuance and Sustainable Women's Entrepreneurship and Innovative Finance Project which had recently been approved in December 2025 and Project implementation is expected by mid-2026. The Ministry of Infrastructure is slowly progressing with the TONGA SECURE Project now focusing on resolving land complications. The Legislative Assembly recently commenced the New Parliament Building in December 2025 with the construction expected to peak later in 2026. The Ministry of Health is moving slowly with the designs of the Vava'u Hospital and construction is expected in the first quarter of 2028. The Prime Minister's Office is expected to commence implementation with the Tonga Rural Innovation Project 3 at around mid-2026 after the recent approval from IFAD. The Governments of Japan and People's Republic of China are currently reviewing the Fishing Vessels and Biogas Projects under the Ministry of Fisheries and the Ministry of Agriculture, Food and Forestry respectively.

On the other hand, the Ministry of Revenue and Customs have fully utilized the budget in August 2025 due to the receipt of Patrol Boats from the Government of Japan. The Ministry of Land, Survey, Planning & Natural Resources are continuing implementation with the Integrated Urban Resilience Project. The Ministry of Infrastructure was also able to complete its milestone projects under the Nuku'alofa Port Upgrade Project in August 2025.

Table 6: Development Budget Revenue by Development Partners FY2026 ($m)

Development Partners	Approved Budget FY2025/26 ($m)	Actual December 2025 ($m)	Outturn FY2025/26 ($m)	Original Estimate vs Actual Dec 2026
Asian Development Bank (ADB)	90.6	41.7	66.7	46.0%
CROP Agencies	3.5	0.7	0.9	19.3%
European Union	0.3	0.0	0.3	0.0%
Government of Australia	38.6	12.4	22.7	32.0%
Government of Japan	10.6	7.2	8.3	67.8%
Government of New Zealand	34.3	7.0	30.8	20.5%
Green Climate Fund	2.0	0.9	2.0	45.0%
Other Donor	22.2	3.5	10.4	15.8%
Pooled Funds - Australia & NZ	46.0	15.5	32.4	33.6%
The People's Republic of China	58.8	5.0	6.8	8.5%
United Nation Agencies	11.6	4.6	14.6	39.6%
World Bank/International Development Agency (IDA)	71.3	23.5	72.1	32.9%
Grand Total	**389.8**	**121.9**	**268.1**	**31.3%**

Source: MOF, 2025

The Development Budget Revenue was able to receive 31.3 percent of development funds in December 2025. However, at the beginning of the FY2026, $127.9 million of remaining balances from the Development Budget *cash* were brought forward from the previous financial year to continue the Development Budget for FY2026. These are mainly existing funds received from the Governments of Australia, New Zealand, and their Pooled Funds, but also the World Bank and the United Nation Agencies.

The In-Kind revenue in receipt has been directed to finance the completion of the ADB Nuku'alofa Port Upgrade Project, the completion of the Royal Tombs Mala'ekula funded directly by the Government of the People's Republic of China, and similarly from the Government of Japan in handing over the 2 patrol Boats for the Ministry of Revenue and Customs.

D. FISCAL ANCHOR and PUBLIC DEBT POSITION

Table 7: Fiscal Anchors

Period	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026(Jul-Dec)
Domestic Revenue (T$m)	280.8	277.0	282.2	286.3	348.2	384.0	204.1
Domestic Revenue to GDP (>22%)	25.1	25.9	23.7	21.4	28.4	30.4	23.4
Wage Bill to Domestic Revenue (>53%)	53.0	57.8	67.1	59.1	47.3	47.4	43.8
Debt to GDP (<50%)	38.6	40.1	39.2	34.8	28.8	25.4	23.5
External Debt (T$m)	418.4	439.1	428.0	427.8	373.0	342.0	326.5
Domestic Debt to GDP	70.0	67.3	67.3	67.3	70.3	68.5	79.3

Source: MOF, 2025

Wage Bill to Domestic Revenue ratio continues to decline and has reached below the 53 percent benchmark.

Domestic Revenue to GDP has increased reflects improved in collection activities, along with GDP growth.

Debt to GDP remains below the target of 50 percent of GDP. Debt to GDP ratio has continuously declined to 23.5 percent in December 2025, reflecting the continuous improvement the government has made on the fiscal side.

Table 8: Public Debt Position ($m)

Period	FY2022	FY2023	FY2024	FY2025e	FY2026e	FY2027e	FY2028e
Total Public Debt Position ($mil)	495.3	495.1	443.4	410.5	405.8	349.9	293.0
Domestic Debt (T$m)	*67.3*	*67.3*	*70.3*	*68.5*	*79.3*	*98.5*	*98.5*
External Debt (T$m)	*428.0*	*427.8*	*373.0*	*342.0*	*300.5*	*251.3*	*194.5*
Guarantees	*15.0*	*16.2*	*15.6*	*15.7*	*326.5*	*15.7*	*15.7*
On-lent	*48.6*	*48.2*	*41.7*	*30.2*	*19.2*	*17.8*	*16.4*
Total Public Debt + Contingent Liability	***552.2***	***558.3***	***507.1***	***443.6***	***425.7***	***375.2***	***317.2***
Debt Service *(T$m)*	34.4	43.6	64.8	70.0	69.3	74.2	76.3

Source: MOF, 2025

Performance (FY2025 – December 2025)

The total debt outstanding fell from $410.5m in the end of FY2025 to $405.8m in December 2025.

Domestic debt rose from $68.5m in FY2024 to $79.3m in December 2025, this increase is primarily driven by new bond issuances executed during the current financial year.

External debt decreased from $410.5m to $405.8m, driven primarily by ongoing principal repayments to EXIM Bank of China, which accounted for 79.6 percent of total external principal repayments (approximately $51.4m) in FY2026. The multilateral creditors continue to hold the majority of Tonga's external debt, collectively amounting to $200.3m. This comprises the World Bank ($102.1m), International Monetary Fund ($44.4m), Asian Development Bank ($43.6m), and International Fund for Agricultural Development ($10.2m). On the other hand, the Government's sole bilateral creditor, the Export-Import (EXIM) Bank of China, accounts for 38.7 percent of the external debt, amounting to $126.2m.

Contingent liabilities rising from Government-guaranteed loans are continuing their recovery process through the Tonga Development Bank and are expected to be fully cleared. Meanwhile, on-lent loans reflect the repayment efforts of the Central Business District (CBD) businesses affected by the November 2006 riots, as well as other public enterprises.

Overall, the reduction in the total debt stock for December 2025 reflects active repayment of external obligations and a stable domestic borrowing environment.

E. CASH FLOW POSITION as at 31st of December 2025

Operating Balance

At the end of the first half of FY2026, total Operating Receipts amounted to $269.3m, excluding Bond Receipts of $13.7m. Over the same period, total Operating Payments reached $216.0m, resulting in an Operating Surplus of $53.3m.

The major increase in Operating Receipts was driven by the reallocation of Additional Budget Support received from New Zealand *($24.3),* Asian Development Bank *($23.8),* Australia *($13.7)* and European Union *($3.5m)* during the period, from Development to Recurrent funding, totalling $65.4m.

Revenue Performance

Taxes on Goods and Services remained the main contributor to Government revenue during the first half of FY2026, accounting for 28 percent of Total Operating Receipts (*$269.3m*), equivalent to $75.6m.

Expenditure Performance

On the expenditure side, payroll costs represented the largest share of Operating Payments during the period, totalling $82.2m. This was followed by public debt servicing, including repayments related to the EXIM Bank of China loan made in September 2025.

Development Funds

For Development Funds, total expenditure in the first half of FY2026 reached $76.9m, exceeding total grant receipts of $26.4m during the same period.