Government of Tonga

Budget Statement

For the Year Ending 30th of June, 2025



Building the Foundations for Sector-Driven Economic Growth & Sustainability

Ministry of Finance
May 2024

TABLE OF CONTENT

FOREWORD 3

1. INTRODUCTION 8

2. SCOPE AND STRUCTURE OF THE BUDGET STATEMENT 10

3. BUDGET OVERVIEW FY 2025 11

4. THEMATIC AREAS AND THE GOVERNMENT PRIORITY AGENDA 14

4.1 Thematic Area 1: National Resilience 16

4.2 Thematic Area 2: Quality of Services and Affordability 25

4.3 Thematic Area 3: Progressive Economic Growth 36

5. MACROECONOMIC STRATEGY, PERFORMANCE AND OUTLOOK 47

5.1 Economic Performance 50

5.2 Medium-Term Fiscal Strategy 54

5.3 Inflation 58

5.4 Poverty and Vulnerability 59

5.5 Government Reform Program 60

5.6 Risks and Mitigation 61

6. BUDGET FOR THE MEDIUM TERM: BY FUNDING ALLOCATION 64

6.1 Recurrent Budget 64

6.2 Development Budget 74

7. CONCLUSION 80

ANNEX I: MACROECONOMIC AND FISCAL OUTCOMES AND OUTLOOK 82

ANNEX II: RECONCILIATION BETWEEN THE GFS AND ESTIMATES FOR FY 2025 123

ANNEX III: REVIEW OF THE GPA FY 2024 AGAINST SDG AND TSDF TARGETS 124

ANNEX IV: DEVELOPMENT BUDGET FY 2023 – 2027 158

ANNEX V: RECURRENT BUDGET PERFORMANCE IN FY 2023 165

ANNEX VI: TONGA'S RECOVERY AND RESILIENCE TO CLIMATE CHANGE AND DISASTERS 169

ANNEX VII: GOVERNMENT STIMULUS PACKAGE FOR COVID-19 IMPLEMENTATION REPORT 171

ACRONYMS 173

List of Tables:

Table 1: Total Budget Estimate FY 2024 – FY 2027 ($m) 13
Table 2:Total Estimated Receipts vs. Payments in FY 2024 – FY 2027 ($m) 14
Table 3: Summary of Government Budget by Priority Areas ($m) 16
Table 4: Detailed Budget FY 2024 - 2027 Allocation for GPA 1 ($m) 19
Table 5: Detailed Budget FY 2024 – 2027 Allocation for GPA 2 ($m) 22
Table 6: Detailed Budget FY 2024 - 2027 Allocation for GPA 3 ($m) 25
Table 7: Gender Parity Index 28
Table 8: Detailed Budget FY 2024 - 2027 Allocation for GPA 4 ($m) 29
Table 9: Detailed Budget FY 2024 - 2027 Allocation for GPA 5 ($m) 31
Table 10: Detailed Budget FY 2024 - 2027 Allocation for GPA 6 ($m) 36
Table 11: Detailed Budget FY 2024 - 2027 Allocation for GPA 7 ($m) 39
Table 12: Detailed Budget FY 2024 - 2027 Allocation for GPA 8 ($m) 42
Table 13: Detailed Budget FY 2024 - 2027 Allocation for GPA 9 ($m) 47
Table 14:GDP sectors 50
Table 15: Key Fiscal Indicators - 57
Table 16: Illustrative Budget Risk Matrix 63
Table 17: Recurrent Budget Projections for FY 2025 – FY 2027 ($m) 64
Table 18: Total Recurrent Payments Budget by Category ($m) 69
Table 19: Recurrent Expenditure by Ministry ($m) 71
Table 20: Recurrent Expenditure by Location ($m) 71
Table 21: Total Recurrent Revenue Budget by Category ($m) 72
Table 22: Recurrent Revenues by Ministry Department and Agency ($m) 74
Table 23: Total Development Budget (Development funded Project Expenditure) ($m), FY 2024-2027 74
Table 24: Total Development Budget (Development funded Project Expenditure) by MDAs ($m) 75
Table 25: Total Development Budget (Expenditure) by Location ($m) 77
Table 26: Total Development Budget (Expenditure) by Development Partners ($m) 78
Table 27: Total Development Budget (Expenditure) by Major Projects ($m) 79

List of Figures:

Figure 1: Three Thematic Areas and the Government Priority Agendas (GPA) 15
Figure 2: Key Economic and Fiscal Indicators 49

Annexes

A-Figure 1: Inflation Forecast 84
A-Figure 2: Exchange Rate Forecast 84
A-Figure 3: Total Public Debt ($m) FY 2023 – FY 2027 (including actual and projected) 100
A-Figure 4: Debt by Creditor as of 30th June 2024 100
A-Figure 5: FC/TOP Exchange rate Fluctuations as of 30th June 2024 100
A-Figure 6: Government Bond Holders as of 30th June 2024 (percent) 101
A-Figure 7: Debt Service projections for the next three (3) years 101
A-Figure 8: Debt Service with DSSI and IMF – Rapid Credit Facility (RCF) 102
A-Figure 9: Exemptions by type, FY 2019 – FY 2023 111
A-Figure 10: Tax Exemptions with share contribution by sector, FY 2019 – FY 2023 112
A-Figure 11: Inflation 112
A-Figure 12: Balance of Overseas Exchange Transaction 113
A-Figure 13: Imports Payment 114
A-Figure 14:Export Receipts 114
A-Figure 15: Remittances by Currency 114
A-Figure 16:Gross Official Foreign Reserves 115
A-Figure 17:Nominal and Real Effective Exchange Rates 115
A-Figure 18: Banks' Lending 116
A-Figure 19:Weighted Average Interest Rate Spread 117
A-Figure 20:Broad Money Formation 117
A-Figure 21: SDG Alignment to TSDFII Progress Report 2019 & 2023 (2019 (left) and 2023 (right)) 127
A-Figure 22:SDG 1.1.1: Eradicate extreme poverty 133
A-Figure 23: Percentage of secondary age students passing secondary school 136
A-Figure 24: Literacy rate (%) aged 15-24 years in 2019 136
A-Figure 25: Life expectancy for men and women, 2006-2016 138
A-Figure 26: Unemployment Rate by sex with the source of information by year 147
A-Figure 27: Development funded Project Expenditure by Development Aid Classification (DAC) 159

A- Table 1: PPP Allocation, utilization, remaining balance as of the 11th of April 2024 88
A- Table 2: Medium Term Ongoing and Pipeline Projects 92
A- Table 3: Budget Themes FY 2025 to FY 2029 – Key Economic Sectors Initiatives 93
A- Table 4: MOF Fiscal Targets 97
A- Table 5: Economic Impacts on our Real GDP 99
A- Table 6:Outstanding amounts by tenors as of 30th June 2024 101
A- Table 7:On-lent Loans as of 30th June 2024 102
A- Table 8: Government Development Loans as of 1st of April 2024 103
A- Table 9:Government Guarantee Loans as at end of June 2024 103
A- Table 10:Cost and Risk Indicators of Debt Outstanding as at end of FY 2024 ($m) 104
A- Table 11: Summary of Government Budget in the GFS format ($m) 105
A- Table 12:Revenue ($m) 106
A- Table 13:Tax Revenue by main category ($m) 106
A- Table 14:Tax on Goods and Services ($m) 107
A- Table 15:Tax on International Trade ($m) 107
A- Table 16:Grants ($m) 107
A- Table 17:Other Revenue (Non-tax) ($m) 108
A- Table 18:Expenses ($m) 108
A- Table 19:Compensation of Employees ($m) 109
A- Table 20:Interest Payments ($m) 109
A- Table 21:Subsidies ($m) 110
A- Table 22:Acquisition of Non-Financial Assets ($m) 110
A- Table 23:Tax Expenditures by Type of Tax as at FY2023 111
A- Table 24: Estimated Revenue forgone of a Selected Expenditure Item FY2021-FY2023 111
A- Table 25:Tonga Selected Indicators, FY 2015-2022 119
A- Table 26: Reconciliation Table between GFS and Estimates FY 2025 124
A- Table 27: Sustainable Development Goals mapped to Tonga Strategic Development Framework II 2015-2025 126
A- Table 28: Alignment of the 2050 Blue Pacific Strategy to the TSDF II 128
A- Table 29:Development funded Project (Expenditure by DAC) ($m) by location 165
A- Table 30:Recurrent Budget Overview Performance ($m) in FY 2023 166
A- Table 31:Recurrent Revenues by Category 166
A- Table 32:Recurrent Expenditure by Category FY2023 168
A- Table 33:HTHH Reconstruction Estimated Allocation ($m) 170
A- Table 34:Stimulus Package - Summary 171
A- Table 35:Stimulus Allocation by Clusters 172

FOREWORD

"Building the foundations for sector-driven economic growth and sustainability".

Investing in Our People, Building a Brighter Future

The Budget Statement for FY 2025 reflects the Government's unwavering commitment to its greatest asset: **the people of Tonga**. We acknowledge the difficulties we face – the intensifying impact of climate change, a resilient yet limited population, and constraints on our productive capacity. Yet, we do so with unwavering optimism, for Tonga's spirit of resilience and innovation has always propelled us forward.

Putting People First

This budget prioritizes **putting the people of Tonga first**. It underscores our commitment to building a strong and inclusive society where every individual can thrive. We will continue to invest in **education and healthcare**, ensuring a skilled and healthy population ready to contribute to our Kingdom's progress. **By strengthening social programs**, we will provide a safety net for the most vulnerable, fostering a sense of security and community.

Unlocking Economic Potential

Our island Kingdom is blessed with abundant natural resources. We see tremendous potential in **agriculture, fisheries, and tourism**. This budget allocates resources to modernize and strengthen these sectors. We will empower farmers and fishermen with the tools and technology they need to increase production and access new markets. We recognize the importance of **sustainable practices which underpin the principles of the circular economy**, ensuring our environment remains vibrant for generations to come.

Tourism, a cornerstone of our economy, will be revitalized through targeted investments. We will promote Tonga's unique cultural heritage and breathtaking natural beauty while safeguarding our traditions and environment.

A Conservative Economic Approach with Liberal Principles

This government is committed to promoting development that is both responsible and sustainable. We are committed to **fiscal responsibility** and **sound financial management** while embracing a liberal economic philosophy that encourages innovation and entrepreneurship. We recognize the importance of foreign investment and will continue to foster a welcoming environment for businesses that share our vision for a prosperous Tonga. We will continue to attract responsible investments that create jobs and stimulate economic activity. This budget reflects a commitment to free markets and creating an environment where businesses can flourish.

Building a Legacy for Future Generations

This budget is the first step on a long-term journey towards a more prosperous and resilient Tonga. By investing in our people and unlocking the potential of our key industries, we aim to build a brighter future for all.

This budget is not just a financial plan; it is a call for all the people of Tonga to come together and embark on this transformative journey. Together, we will chart a course towards a brighter future, leaving behind the limitations of the past and embracing the boundless possibilities that await us.

Together, we can forge a resilient and prosperous Tonga, where economic growth and opportunity flourish for all. We welcome all stakeholders to join us in this important undertaking, working together to guarantee a stable and equitable future for our Kingdom.

Budget Aim

The future is unpredictable, given the economy's susceptibility to disasters and climate change. These factors encompass the rise in sea levels and the surge in tropical cyclones. Most of the low-lying regions experienced drought, heavy rain, and flooding in the past year, which we witnessed and experienced. Despite the challenges, the government remains dedicated to tackling them and speeding up economic development.

The primary aim of this budget is to direct attention towards promoting economic growth through increased investment and strong partnerships with key stakeholders.

Budget Theme

The budget for 2024-2025 is guided by the theme:

"Building the foundations for sector-driven economic growth and sustainability".

The aim of this budget is to reach the desired level of economic prosperity, as described in the Tonga Sustainable Development Framework (TSDF) II, which concludes in 2025. It will be continued by TSDF III, and this budget prepares the baseline for implementing the new framework.

This budget focuses on establishing and strengthening partnerships and higher investments, to achieve sustainable growth for all. It focuses on prioritizing projects and initiatives aimed at enhancing growth and development for the benefit of the entire population of Tonga. It is equally crucial to prioritize ongoing efforts and support for those living in extreme poverty and the households experiencing financial deprivation, lack of access to education opportunities, and basic infrastructure.

Investment in High Priority Sectors

The budget for FY 2025 aims to enhance growth by increasing investment in collaboration with important partners, with the goal of improving economic growth. As a result, $30.0m will be dedicated over the medium term to supporting growth initiatives in the agriculture, fisheries, and tourism sectors over the next three years, beginning in this budget.

The current support provided to these sectors, such as tax exemptions and sector development programs led by the respective economic ministries, will continue, and be closely monitored to ensure a positive return on investment. The government will also continue to maintain a focus on social sector projects, particularly in improving healthcare standards, enhancing the quality of education, and implementing social safety programs to assist disadvantaged individuals and families in need.

Key Thematic Areas

This Budget will continue to support the ongoing program and activities under nine Government Priority Areas (GPAs), aligning with the TSDF II. These are grouped into three thematic areas: *(i)* Building National Resilience to external threats and risks, *(ii)* Improving the quality services and affordability of government services, and *(iii)* Progressive Economic Growth.

Government ministries, departments, and agencies (MDAs) should concentrate their efforts and distribute resources effectively to accomplish the government's priorities. The structure of the Budget Statement highlights how the GPAs, and our implemented plans are interconnected. It has seven (7) sections, plus annexes. The aim of the Budget Statement is to facilitate the actions required of MDAs to deliver the key activities under each of the nine (9) Government Priority Areas (GPAs).

Budget Allocation

The economy grew by 2.9 percent in FY 2024, and it is projected to maintain an average growth rate of 2.8 percent over the medium term, from FY 2025 to FY 2027.

The budget allocation for FY 2025 is $899.2m, with a focus on the nine (9) Government Priority Areas. Despite the loan repayment commitment to the Export-Import Bank of China in FY 2025 (estimated total of $42.0m), and the additional 5.0 percent Cost of living allowance, the projected increased revenue, complimented with the fiscal consolidation, anticipates a *balanced budget* in FY 2025.

The government proposes to implement a 5 percent Cost of Living Adjustment (COLA), to offset the impact of rising prices on the standard of living of civil servants. The wage bill related to expenditures remains high, with the Ministry of Education and Training and Ministry of Health seeing significant increases in their budgets.

In line with its budget priority of putting people first, the government proposes to increase grants to non-government schools as follows:

- Secondary schools - increase from $700 to $770
- TVET schools - increase from $1,200 to $1,320
- Free education up to Form 5 (government schools only) commencing in January 2025
- $0.1m grant for the Hango school ('Eua)

Furthermore, the government also proposes to increase the monthly stipend to the elderly group as follows:

- expand the number of beneficiaries to include those at 67 years old from previously 70 (FY 2025) and further expand to 65 years old in FY 2026 and 63 years old in FY 2027
    - 80 years and above - the current $100 to $110/month
    - Below 80 years - the current $80 to $90/month

It is also proposed to increase the monthly stipend for less disadvantaged groups by 10 percent. Specifically for individuals with:

- one (1) form of disability(minor) - to increase from $50 to $60 per month.
- two (2) forms of disability (medium) – to increase from $80 to $90 per month, and

- three (3) or more forms of disability (extreme/severe) - to increase from $100 to $110 per month.

The Budget for FY 2025 focuses on allocating resources to support new public-private partnership (PPP) investments, prioritize ongoing development activities, enhance national security, and improve the social wellbeing of all citizens.

The projected growth for FY 2025 and the medium-term period, results from the recovery initiatives in various sectors, along with the successful implementation of major construction projects.

Medium-Term Fiscal Balance

The budget projects a fiscal surplus of 3.4[1] percent of GDP over the medium term through revenue measures and fiscal restructuring. The government shall continue a rigorous program of fiscal consolidation, active public debt management, and focus on implementing revenue reform to improve domestic revenue collection and meet loan repayments commitment.

Public Financial Management

The government shall continue to prioritize and follow the three (3) fundamental principles of Public Financial Management (PFM) of (i) aggregate fiscal discipline, (ii) allocative efficiency and (iii) operational efficiency, to achieve its objectives.

Medium-Term Budget Theme: Unleashing the Potential of Productive Sectors for Economic Growth and Sustainability

The budget statement introduces a medium-term budget theme for the key productive sectors of agriculture, fisheries, and tourism. It establishes a critical link to the Tonga Sustainable Development Framework II. It also sets the foundation for implementing the Tonga Sustainable Development Framework III, upon its approval. The involvement of all relevant stakeholders, including the people of Tonga and development partners, is crucial. The FY 2025 budget aims to provide sustained support to vulnerable groups, promoting job opportunities, and upholding macro-fiscal stability. Some of the social policy initiatives that were started in FY 2024 include affordable housing, providing breakfast for primary students, and offering program support for returning individuals (returnees).

Inflation

Annual Inflation has declined to 3.6 percent in February 2024 in comparison to 6.4 percent in January 2024 (and 8.7 percent inflation in February 2023). The 3.6 percent in February 2024 is below the inflation 5.0 percent reference rate of National Reserve Bank of Tonga. It is projected that inflation will continue to stay below the reference rate for the most part of 2024.

The government will closely monitor the National Reserve Bank of Tonga's efforts to manage inflation and ensure price stability, maintaining the affordability of necessities for the remote islands and more isolated communities. Government will also focus on mitigating Tonga's high-cost structure, reducing business unit costs, and addressing sectoral imbalances in key areas such as agriculture and fisheries. Additionally, in response to rising electricity and transportation demands, will implement the reform of the petroleum supply downstream process to decrease avoidable transit, storage, and distribution costs. These reforms are aimed at reducing the landing costs of

[1] GFS Basis (MOF)

petroleum to Tonga, which will consequently lower pump prices for the public.

Overseas Labour Schemes and the Need for Innovation

Labour schemes abroad have a significant impact on the economy. Tonga's economic growth and development face a significant challenge because of the departure of skilled workers to labour programs in Australia and New Zealand. While the remittances sent by these workers are crucial for income, their departure has resulted in a labour shortage that is hindering productivity and innovation.

The government will tackle these problems by implementing creative approaches and transform the shortage of workers into a driving force for technological progress. Instead of viewing labour shortage as a problem, we can seize it as an opportunity to invest in innovation and technology. By embracing automation, artificial intelligence, and other innovative techniques, we can offset the loss of skilled workers and enhance productivity.

The government, with the support of development partners, proposes to invest in technological infrastructure, modern equipment, and training programs. This investment will equip businesses and workers with the tools they need to adopt innovative practices and increase efficiency.

The government will promote collaboration with the private sector to foster the development of innovative solutions. Tax incentives, grants, and partnerships can stimulate investment in research and development, leading to the creation of new technologies and employment opportunities.

To keep skilled workers in Tonga, the government shall focus on re-skilling and upskilling programs. By providing training and certification opportunities, workers can gain in-demand skills that align with the evolving needs of the labour market.

By embracing innovation, investing in technology, and empowering our workforce, we can turn this challenge into an opportunity for economic growth and prosperity. The government, development partners, and the private sector must work together to create a sustainable ecosystem that fosters innovation and keeps valuable human capital. By doing so, we can unlock the full potential of Tonga's economy and secure a brighter future for our people.

Conclusion

We urge all key stakeholders to cooperate and collaborate in order to perform the government's plans and initiatives successfully for the growth and development of our Kingdom. We deeply appreciate the ongoing support from our development partners, the Tongan diaspora, and everyone who is concerned about Tonga.

I look forward to your continued support and cooperation in building our beloved Kingdom.

MINISTER FOR FINANCE TONGA

Hon. Tiofilusi Tiueti
Minister for Finance

1. INTRODUCTION

The focus of the third Budget under the current administration will focus on enhancing partnerships, increasing investments, to achieving sustainable and inclusive growth for all. It is inspired by the theme,

"Building the foundations for sector-driven economic growth and sustainability."

The theme reflects the move towards stronger partnership and increase investment in key economic sectors to boost economic growth to its potential, aiming to improve the standard of living for all Tongans.

The Budget FY 2025 will therefore support Government plans and investment initiatives to achieve sustainable, equitable and inclusive growth. This budget provides a dedicated budget allocation of $9.1m (an increase of $1.1m from the current budget allocation) to support large investment initiatives under the key economic sectors such as agriculture, fishery, and tourism.

The FY 2025 budget will continue to enforce compliance with the building code in the construction sector, and implementing Government reforms, including the organizational review within the public service. An ongoing focus will also be on the development of the two major social sectors, health and education and the vulnerable groups as noted earlier.

This year's budget will therefore continue to implement activities under the nine (9) Government Priority Agenda (GPAs), categorized under the three (3) thematic areas:

National Resilience.
Quality Services and Affordability; and
Progressive Economic Growth.

Achieving these priorities will depend on ongoing partnerships, coordination, and collaboration between the Government, private sector, civil society, and development partners. The details of each theme and the GPA within are provided in Section 4 of this Statement.

From Crises to Growing the economy

The present government has encountered numerous difficulties since its inception. The economy was severely impacted by the dual shocks of HTHH volcanic eruption and COVID-19 pandemic. The Government provided various assistance during a challenging period, transitioning from survival to recovery and now focusing on increasing investment to enhance growth. Increasing investment is crucial for achieving sustainable development and macroeconomic stability.

The economy is projected to grow by 2.9 percent in FY 2024 and at an average of 2.8 percent in the medium term, between the period FY 2025 to FY 2027. The positive growth forecast in the medium term is driven by the recovery activities under the construction sector, improvements in other sectors and the planned implementation of major infrastructure projects and Private Public Partnership (PPP) investment activities. Despite the expected repayment of $42.0m to the Export-Import Bank of China in FY 2025 and including a 5.0 percent cost-of-living allowance, the revenue projection shows that with fiscal consolidation measures, a balanced budget can be achieved in FY 2025.

The support we receive from our development partners and the Tongan diaspora overseas, especially during challenging economic times, is appreciated. We want to express our gratitude to our development partners, friends, and families abroad, as their generous support has been

instrumental in helping us overcome difficult periods. We are looking forward to a lasting partnership in the development of our country.

Note:

(i) All amounts stated in this document are in Tongan Pa'anga unless otherwise indicated.
(ii) Differences in numbers are because of rounding.
(iii) Financial Year (FY) is read as, *for example*: FY 2025 = 2024/25 ending to the 30th of June 2025.
(iv) $xx m: the letter '***m***' refers to a 'million' or millions of Tongan Pa'anga unless otherwise indicated.

2. SCOPE AND STRUCTURE OF THE BUDGET STATEMENT

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

Section 1	Introduction
Section 2	Scope and Structure of the Budget Statement
Section 3	Budget Overview FY 2025
Section 4	Thematic Areas and the Government Priority Agenda (GPA)
Section 5	Macroeconomic Strategy, Performance and Outlook
Section 6	The Government Budget for the Medium Term by Funding Allocation
Section 7	Conclusion
Annexes	Detailed information and analysis

The intention of this Budget Statement is to facilitate the actions required of the MDAs to deliver the key activities under each of the nine (9) GPA of the Budget Statement provides:

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

The Budget Statement FY 2025 will maintain a similar scope, form and approach. It will closely monitor the progress of ongoing activities to ensure their completion by FY 2025. It will also focus on the effects of government policies and initiatives to ensure alignment with the targets and objectives set for each GPAs.

Section 3 summarizes Government budget for FY 2025. **Section 4** continues to the Thematic Areas and the Government Priority Agenda (GPA).

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

Section 6 presents the Government Budget for the Medium Term by Funding Allocation which will also be discussed according to the GPA.

3. BUDGET OVERVIEW FY 2025

The FY 2025 Budget will be guided by the theme: ***"Building the foundations for sector-driven economic growth and sustainability."***, aims to support investment initiatives in crucial economic sectors to maximize growth. The government is targeting a **balanced budget in FY2025**, by keeping spending within available resources, and achieving more value for money investments. These activities aim to recover the economy and enhance resilience to climate change, implement government reform programs for quality and affordable services, and provide social protection services to vulnerable groups.

3.1 Summary: Policy initiatives and Priorities in Budget FY 2025 -FY 2027

In line with its budget priority of putting people first, the government proposes to implement the following *new* policy initiatives in the Budget FY 2025-FY 2027 period which are also covered in related sections: *Section 4*, *Section 6* and further details in *Annex III*:

GPA 1: Building Climate and Economic Resilience

- GPA 1 policies and its targets continue to guide the implementation of the medium term budgetary towards a ***building the foundations for sector-driven economic growth and sustainability.***
- Strengthening human resources to support the implementation of the Disaster Risk Management Act 2021 led by the National Disaster Risk Management Office (NDRMO) - $0.2m
- Continuation of government's contingency disaster financing mechanisms and the ADB's contingency disaster financing and the World Bank's catastrophe deferred drawdown options (CatDDO).

GPA 2: Poverty Alleviation and Social Protection

Government also proposes to increase the monthly stipend to the elderly group as follows:

- the current $100 to $110/month
- the current $80 to $90/month
- expand the number of beneficiaries to include those at 67 years old from previously 70 (FY 2025) and further expand to 65 years old in FY 2026 and 63 years old in FY 2027
- 10.0 percent increase in disability monthly stipend to the disability group
- Establish new Integrated Aged Care Centers
- Tonga Pathway to Employment (next phase after the completion of SET project)
- Enhance support towards national sports development starting with $12.8m in FY 2025

GPA 3: Reduce the supply and use and harm of illicit drugs.

- Implementation of the National Action Plan for Combating Illicit Drugs (NAPID), through a medium term budgetary towards increasing quality of services to reduce supply and the use of illicit drugs effectively, and address harm reduction processes.
- These include the construction of the new fire and police stations in Houma, Tongatapu and the Leimatu'a Station, Vava'u; and the upgrade of prison facilities.

GPA 4: Quality Education

- Government proposes to increase grants to non-government schools as follows:
    - Secondary schools - increase from $700 to $770 per head

  - TVET schools - increase from $1,200 to $1,320 per head
- Provide free public education up to Form 5
- $0.1m grant for the Hango Institute of Agriculture in 'Eua
- Expand provision of inclusive education to outer islands.
- Implement a 10.0 percent duty allowance for teachers estimated at $3.0m

GPA 5: Quality Healthcare

- Need to retain and recognize special skills in the health workforce, including the award of retention and scarcity allowances to medical personnel worth around $2.0m, effective in FY 2025.
- Maintenance budget for health facilities increasing to $1.5m per annum.
- Construction of the new hospital in Vava'u.

GPA 6: Access to Quality and Affordable Government services

- Public Sector Reform Program ($1.3m under the recurrent budget of the Prime Minister's Office and similarly $0.5m under the Ministry of Finance).
- Upgrade of the revenue management system (RMS) to maintain and enhance revenue administration services to the public, which will be sourced under the development budget in FY 2025 at a total cost of NZD$3.9m over the next medium-term.
- Address inflationary pressures on civil service compensation through a 5% COLA in July 2024 and enhancing performance through a $2.2m increase on the PMS annual allocation.
- Increase in the allocation towards the civil service staff PMS awards from $2.0m to $4.2m.
- Operationalization of the Office of the Anti-Corruption Commission
- *Recurrent Expenses(new)*,
  - Parliamentary sessions national live broadcasting.
  - Strengthening of human resources to support the implementation of the Energy Act 2021 led by the Energy Department
  - Forum for Economic Ministers Meeting (FEMM) to be chaired by Tonga in Fiji.
  - Expansion of the Ombudsman office to Ha'apai.
  - Establishment of the youth diversion scheme under MOJ, $0.1m.

GPA 7: Progressing Economic Growth

- Increase by $1.1m for Public Private Partnership (PPP) projects to $9.1m: Agriculture ($3.0m), Tourism ($3.0m), Fisheries ($3.0m) and Manufacturing ($0.1m)
- Multi-purpose facility to enhance local production and exports of value-added goods, $80,000 for feasibility study (FY 2025) and facility construction at $3.5m (FY2026)
- Construction of the new national museum

GPA 8: Improve Quality and Access to Public Infrastructure

These are a list of infrastructure priorities, which includes the:

- Operationalization of the RMF as revolving funds at $22.9m in FY 2025 with expenses and revenues in line with the RMF setting under the Roads Act 2020,
- Construction of the new Parliament building, upgrading of the royal tombs at Mala'ekula.

- Building a new wharf bridge in 'Eua, the Fanga'uta Lagoon Bridge, National Museum of Tonga, TFES Office Headquarters and the expansion of flights from Lulutai Airlines by acquiring another Twin Otter airline.

GPA 9: Strengthen Bilateral Agreement

- Hosting of the Pacific Island Leaders Forum.
- Amendment of the Tonga Diplomatic Policy.

3.2: Budget Summary

The total Government budget for FY 2025 is estimated at **$899.2m** of which $452.3m is recurrent (50.3 percent), and $446.9m is development (49.7 percent), an increase by **$115.0m** (or 14.7 percent) from the total budget allocation in FY 2024; as shown in ***Table 1*** below. The budget consists of 73.9 percent or **$664.2m** in cash and 26.1 percent or **$235.0m** in-kind contributions. The cash amount for next fiscal year is an increase of $148.4m or 28.8 percent from the current fiscal year, with $32.8m increase in recurrent expenses and $115.6m increase in development cash projects and revolving funds. The decrease by **$33.4m** in the in-kind development budget allocation for the FY 2025 is mainly due to completed donor-funded projects.

Table 1: Total Budget Estimate FY 2024 – FY 2027 ($m)

Source of Fund	Original Estimates 2024	Budget Estimates 2025	Budget Estimates 2026	Budget Estimates 2027
Recurrent	**419.5**	**452.3**	**453.0**	**450.8**
Development	**364.7**	**446.9**	**385.4**	**347.6**
Cash	*96.3*	*211.9*	*139.2*	*122.5*
In-kind	*268.4*	*235.0*	*246.2*	*225.1*
Grand Total	**784.2**	**899.2**	**838.4**	**798.4**
Total Cash Appropriation	**515.8**	**664.2**	**592.2**	**573.3**

Note: Development Cash includes Revolving funds of $35.7m for FY 2025 ($30.8m Government of Tonga Funds and $4.9m Overseas Donor Funds), $23.0m for FY 2026 (Government of Tonga Funds only) and $23.2m for FY2027 (Government of Tonga Funds only).

Source: Ministry of Finance (MOF)

Table ***2*** below, reflects a summary of the total receipts and payments estimated for the FY 2025, compared to the current financial year and over the next medium-term. It reflects the target of a **balanced budget** in FY 2025 compared to a $30.2m deficit in the current financial year's estimates. Over the medium-term to FY 2027 the government will continue to manage spending within its available resources and maintain sustainable fiscal levels, resulting in an estimated $7.3m surplus by the end of the medium-term.

Table 2:Total Estimated Receipts vs. Payments in FY 2024 – FY 2027 ($m)

	Original Estimates 2024	Budget Estimates 2025	Budget Estimates 2026	Budget Estimates 2027
RECEIPTS	**753.9**	**899.2**	**838.3**	**805.7**
Recurrent	389.3	452.3	453.0	458.1
Development	364.6	446.9	385.3	347.6
PAYMENTS	**784.1**	**899.2**	**838.3**	**798.4**
Recurrent	419.5	452.3	453.0	450.8
Development	364.6	446.9	385.3	347.6
BALANCE	**(30.2)**	**-**	**-**	**7.3**
FINANCING	**30.2**	-	-	**(7.3)**
New bond issuance	3.0	-	-	-
Cash reserves	27.2	-	-	(7.3)

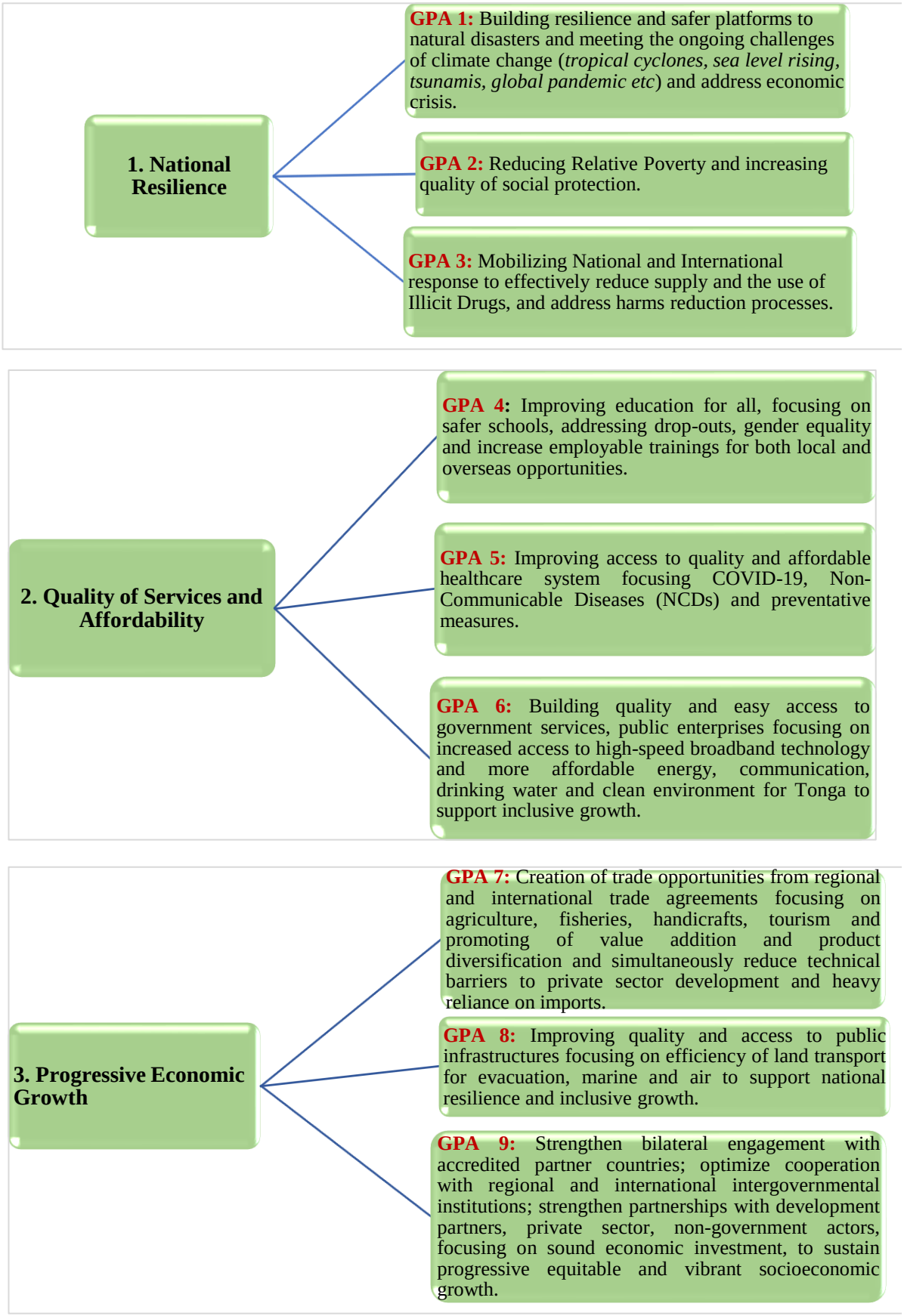
Source: Ministry of Finance (MOF)

4. THEMATIC AREAS AND THE GOVERNMENT PRIORITY AGENDA

The Budget FY 2025 continues to be guided by the nine (9) Government Priority Areas, which were derived from TSDF II as key focus areas for the current administration. Financial Year 2025 marks the end of TSDF II, and the budget also includes preparations for TSDF III. Section 4 discusses the outcomes of the reviews of performance implemented over the past three (3) years. It will discuss ongoing activities that should be prioritised in the medium-term budget and TSDF III formulation.

As in ***Figure 1*** below, the performance review focuses on the nine (9) GPAs and the three (3) thematic areas, namely: *i.* National Resilience, *ii*. Quality of Services and Affordability and *iii.* Progressive Economic Growth. The review also looked at the respective resources (budget allocation) that have been allocated to deliver the outputs under each of the 9 GPAs.

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



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

The ***Table 3*** below, summarizes the Government's budget and how it is allocated to each GPA in FY 2025, compared to the current financial year FY 2024. It reflects a $115.0m increase in the next budget FY 2025, which stems largely from a $28.0m increase in GPA 6 (quality and accessible public services), followed by a $27.1m increase in GPA 1 (building climate and economic resilience) and a $21.0m increase in GPA 8 (quality and accessible public infrastructures). The year-on-year declines in some of the GPAs are mainly due to the completed development projects, while the decline in recurrent allocations such as in GPA 8 is due to the establishment of the road maintenance fund (RMF) – which is treated under the development budget instead due to its revolving fund nature.

It is important to also note that there is a slight re-classification of funding allocation amongst the GPAs in the FY 2025 budget which also reflect in the comparatives for FY 2024, to better reflect spending under the most relevant GPA. For instance, the recurrent budget allocation for the Meteorology department under MEIDECC was previously classified under GPA 6 (public services), instead, it will now be reflected under GPA 1 because of its more specific linkage in implementing early warning systems towards building climate resilience.

Table 3: Summary of Government Budget by Priority Areas ($m)

	Government Priority Area	Original Estimates FY 2024			Estimates FY 2025			Share of Total Budget (%)	*Variance (Total)*
		Recurrent	Development	Total	Recurrent	Development	Total		
	Thematic Area 1: National Resilience	**55.5**	**112.4**	**167.9**	**63.1**	**138.1**	**201.2**	**22.4**	***33.3***
1	Climate & economic resilience	3.2	79.2	82.4	3.6	106.0	109.6	12.2	*27.2*
2	Reduce poverty & social protection	12.4	11.8	24.2	15.6	25.6	41.2	4.6	*17.0*
3	Combat illicit drugs	39.9	21.4	61.3	43.9	6.5	50.4	5.6	*(10.9)*
	Thematic Area 2: Quality & Affordable Services	**295.3**	**96.7**	**392.0**	**319.7**	**125.6**	**445.3**	**49.5**	***53.3***
4	Improve education & employability	63.1	37.9	101.0	70.6	42.8	113.4	12.6	*12.4*
5	Quality & affordable healthcare	55.7	10.3	66.0	56.2	22.7	78.9	8.8	*12.9*
6	Quality & accessible public services	176.5	48.5	225.0	192.9	60.1	253.0	28.1	*28.0*
	Thematic Area 3: Progressive Economic Growth	**68.7**	**155.6**	**224.3**	**69.5**	**183.2**	**252.7**	**28.1**	***28.4***
7	Trade & private sector development	33.7	26.4	60.1	38.4	23.4	61.8	6.9	*1.7*
8	Quality & accessible public infrastructures	20.0	127.2	147.2	15.1	153.1	168.2	18.7	*21.0*
9	Strengthen partnerships	15.0	2.0	17.0	16.0	6.7	22.7	2.5	*5.7*
	Grand Total	**419.5**	**364.6**	**784.2**	**452.3**	**446.9**	**899.2**	**100.0**	***115.0***

Source: Ministry of Finance (MOF)

Each GPA is discussed in this Section, providing analysis, performance overview in FY 2024, and funding. The detailed activities and review of the performances of the GPAs are provided in *Annex III*.

4.1 Thematic Area 1: National Resilience

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

This priority aims to improve the economy's resilience to extreme natural disaster and the impacts of climate change. The target is to strengthen resilience and adaptive capacity to climate related

hazard and natural disasters. This includes the integration of climate change measures into national policies, strategies, and planning. The following reflects the related policies and activities had been established and implemented to achieve the proposed outcome and the target.

GPA 1 Review of Performance FY 2024

Policy and Performance

Government Priority Agenda 1 focuses on building resilience against natural disasters and adverse external shocks. This is mainly done through implementing the policies bills, including the **Climate Change Policy, Disaster Risk Financing Strategy, Migration Sustainable Development Policy (MSDP), Resilient Housing Policy and Ocean Bill.** Specific targets of these policies have been mapped to GPA 1 as a way of policy coherence and implementation.

A total of $82.4m[2] was allocated in FY 2024 under GPA 1, of which $77.3m or 93.8 percent is estimated to be utilised by the end of the year. MEIDECC continues to be the leading Ministry under this GPA, representing the largest share of the budget, followed by the Ministry of Infrastructure, reflecting the ongoing recovery efforts after the HTHH volcanic eruption and tsunami, and other climate resilience related development projects.

Tonga has achieved one of the Nation Determined Contribution's (NDCs) activity which was the planting 1 million trees as part adaptation initiatives toward the impacts of climate change to meet zero carbon emission. Also, there were capacity developments conducted across government line ministries, clusters, private sectors, NGOs, and communities to improve the preparedness capacities of the country aimed to reduce disaster risks.

At present, the growth projection reflects the improvement in all key sectors' performance with a GDP projected to grow at 2.9 percent in FY 2024 and at an average of 2.8 percent in the medium term. This is evident by the positive growth projection driven by the ongoing re-construction activities. The review of activities under this GPA is as follows:

a. Ongoing implementation of the HTHH Reconstruction Recovery Project

Implementing the construction recovery projects is guided by the Resilience Housing Policy and the National Infrastructure Investment Plan's Multi Criteria Assessment (MCA) targeting to reduce risks in the future.

- **Residential housings:** 260 households were affected by the HTHH tsunami. **113 have been completely reconstructed** and the remaining houses are expected to be completed by the end of June 2024.
- **Non-residential buildings**: The Nippon Foundation project is estimated to be completed by the end of FY 2024. The project presented to the Government 30 fishing boats and 2 Community Halls in Tongatapu ('Atata Si'i and Matatoa) and 1 in Eua (Mango community in Ta'anga).
- The building of the **government houses** for Ha'apai (Pangai & Nomuka) and 'Eua ('Ohonua) are currently in the early stages of progress.
- Completed the repairs of the **domestic submarine cable system** connecting Tongatapu to Ha'apai and Vava'u, which was destroyed by the Hunga-Tonga Hunga-Ha'apai volcanic eruption in January 2022, was supported by Australia. The redundancy cable for Tonga

[2] $1.4m allocated under the recurrent budget for the Meteorology Department and $0.3m for government's contribution to the parametric insurance, are being reclassified under GPA 1 from GPA 6 due to its relatively significant linkage in building national resilience through early warning systems, amongst others.

was signed in December 2023, was supported by Australia and New Zealand amounted to US$3.0m and is expected to complete by the 3rd quarter of 2025.

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

- Preparedness activities led by the National Disaster Risk Management Office (NDRMO), which include conducting of an **Initial Damage Assessments (IDAs), digitize the Initial Damage Assessment (IDA) questionnaire**, and marking a **World Tsunami Awareness Day** to increase community awareness, particularly for the vulnerable groups.
- Ongoing implementation of the **Tonga Safer & Resilience School Project (TSRSP),** focusing on the 2 components; *i.* Construction of schools (US$22.5m) and the *ii.* Upgrading Curriculum for Government Schools (assessments and strengthening of the information system (EMIS).
- A recurrent budget allocation in FY 2024 was estimated at $0.7m to support the NDRMO staffing and operational costs, of which 100 percent is expected to be spent in the current FY. Similarly, recurrent budget of $1.4m was allocated to support the Meteorology department, of which 92.9 percent is expected to be utilized at the end of the year mainly on staffing (85.0 percent).
- Ongoing implementation of the **PREP (Pacific Resilience Project**), focusing on component 1: Strengthening Early Warning and Preparedness, which is currently underway.
- Planting 1 million trees to meet the zero-carbon emission by MEIDECC. MAFF is also undertaking a tree planting project of another 1 million trees.

c. Strengthen the compliance with Building Code

- Building Back Better initiatives, such as the **Safer School Infrastructure Project**, have applied the updated building codes to make sure that structures are resilient. The project Government Middle School (GMS) buildings have resilient building codes incorporated into their designs and floor plans, and the construction contractors have been advertised. A total of **17 buildings** for GMS comply with the building codes.
- Ongoing reconstruction projects such as the HTHH designs have been updated to comply with the building codes to ensure resilience components clearly addressed and adhered to by all. The 'Tapanekale' Affordable Housing project also complies with the building code.

d. Climate Change

- The ADB Trust Fund is the primary fund for Climate Change related projects, operations, and activities. In the FY 2024, the fund has been accessed for several operations and activities, *(refer Annex III for details).*
- A recurrent budget allocation in FY 2024 was estimated at $0.8m to support the Climate Change department's staffing and operational costs, of which 75.0 percent was expected to be spent in the current FY. The under-spending is largely because of vacant positions yet to be filled.

Priority activities FY 2025 - 2027 for GPA 1 [Forward looking]

The policies stated above, and its targets will continue to guide the implementation of the medium-term budget towards ***building the foundations for sector-driven economic growth and sustainability***. A total allocation of $109.6m is estimated in FY 2025 for implementation efforts under GPA 1, which is an increase by $27.1m from the current year FY 2024 due mainly to the

World Bank's catastrophe deferred drawdown options (CatDDO) and ADB's contingency disaster financing options.

The following activities are expected to continue in FY 2025.

- Constructing community halls in Fonoi, Nomuka, Mo'unga'one, Lofanga (Ha'apai).
- Building government houses in Pangai, Nomuka (Ha'apai), and 'Ohonua ('Eua).
- Rebuilding government schools in various locations, including 'Eueiki, Tungua, Fonoi, Nomuka, Kolomotu'a, Tupouto'a Middle School, Maamaloa Primary School, and Maamafo'ou in Tongatapu.
- Upgrading Tatakamotonga Health Center to a super clinic, reconstructing Kolomotu'a, Leimatu'a, Pangaimotu, and upgrading Ngele'ia Tefisi and Ta'anea health centers.
- Distributing water tanks to remaining communities, including community halls and churches.
- Rehabilitating drainage systems in flood-prone locations and developing a climate and disaster-resilient urban development strategy.
- Continuing efforts to reduce power losses and construct a new 12-km (33kV) transmission line for renewable energy under the Grid Strengthening Project.
- Continuing road rehabilitation projects across Tongatapu, 'Eua, Vava'u, and Ha'apai.
- Installing seismic hut equipment in Niuafo'ou and completing installation of coastal radio stations throughout Tonga.

*Please refer to **Annex III** for further details.*

GPA 1 BUDGET FY 2024-2027

Table 4: Detailed Budget FY 2024 - 2027 Allocation for GPA 1 ($m)

Budget Allocation for GPA 1: National Resilience	2023/24				2024/25		2025/26		2026/27	
	Original Estimate		Revised Estimate		Estimate		Estimate		Estimate	
	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development
Climate Change Department	0.8		0.6		0.8		0.8		0.8	
Disaster Management Department	0.7	0.3	0.7	0.2	0.8		0.8		0.8	
Meteorology Department	1.4		1.3		1.7		1.6		1.6	
Tonga Volcanic Eruption & Tsunami		12.0		11.6		6.2		0.4		0.4
Maintenance of Evacuation Road		10.4		10.8						
Tonga Climate Resilience Transport		14.6		14.5		7.7		11.1		16.5
Pacific Resilience Program (PREP)		10.7		9.1		9.2				
Integrated Urban Sector Resilience		4.0		12.4		4.8		9.8		7.1
Climate Change Trust Fund		2.0		8.6		2.2		0.1		0.1
Tonga Renewable Energy Project		2.8								
Water Management Project		8.0		3.0		8.0		6.0		2.0
Tonga Safe and Resilient Schools		5.5		1.8		6.4		16.4		16.4
Nationwide Early Warning System		6.2		0.5				3.2		5.3
GCF readiness						6.5		5.2		5.2
NNUP and Generator Set						8.0				
Parametric Insurance	0.3	0.9	0.3	0.8	0.3	1.0	0.3	1.0	0.3	1.0
Energy Project								5.0		5.0
Coastal Protection Project								10.0		20.0
Catastrophe Deferred Drawdown Options (CatDDO)						30.0		10.0		10.0
Contingent Disaster Financing (CDF)						10.0		11.0		
COVID-19 Support Program						2.2		1.5		
Other		1.8		1.1		3.8		2.2		2.1
Sub-Total	**3.2**	**79.2**	**2.9**	**74.4**	**3.6**	**106.0**	**3.5**	**92.9**	**3.5**	**91.1**
TOTAL	**82.5**		**77.3**		**109.6**		**96.4**		**94.6**	

Source: Ministry of Finance (MOF)

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

This priority area aims to reduce relative poverty rate and increase quality of social protection by targeting through accessing for all to adequate, safe and affordable housing and basic services, reduce at least by half the proportion of men, women, and children of all ages living in poverty; access to adequate and equitable sanitation, safe and affordable drinking water, hygiene for all, and pay special attention to the needs of vulnerable groups. The following section reflects the related policies and activities had been established and implemented to achieve the proposed outcome and the target.

GPA 2 Review of Performance in FY 2024

This priority agenda continues to emphasise one priority of the government in ensuring No One is Left Behind. Implementing GPA 2 has been guided by the following policies: **National Social Protection Policy (NSPP) 2023-2033, Housing Policy (Tapanekale Project), National Disability Inclusiveness Policy (NDIP), Women Empowerment & Gender Equality Tonga (WEGET), Tonga National Youth Policy (TNYP), Tonga Labour Mobility Policy**, that strengthen and empower the vulnerable and marginalised groups of the population, especially those who are in the poverty category. According to the latest HIES 2021, the poverty data reflects the relative poverty decrease from 3.1 percent (2006) to 0.1 percent (2021). It is believed that the government programs contribute to the decline in poverty in Tonga. The reviews of current programs and activities under this GPA, focus on two (2) areas.

A total budget allocation of $24.2m in FY 2024 was made towards efforts to reduce relative poverty, of which $19.6m or 81.0 percent is estimated to be utilised by the end of the year, with key developments highlighted below:

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

- The ongoing **support for the elderly and disability communities**. A $6.2m[3] estimated in the FY 2024 recurrent budget was allocated to support this program, including age care services and monthly allowances for people with disabilities and elderly groups, which is 10.6 percent more than the original allocation estimated to be spent at the end of the year, to cater for the successful operations and administration of the program.

- A total recurrent budget of $6.2m was allocated to the Ministry of Internal Affairs (MIA) in FY2024 for the overall administration and delivery of public services related to social protection, overseas employment schemes, sports development, and empowering youth and women groups. It is estimated that at the end of the current year, FY 2024, MIA would spend $7.2m instead, with the increase mainly due to increased funding for Tonga's participation at the South Pacific Games.

- In FY 2024, the concept of gender and climate related budgeting was introduced under the annual Budget Guidance 2025 issued by the Ministry of Finance for budget preparation to assist line ministries in better identifying and designing budget allocations to help address climate and gender related issues more effectively and efficiently.

[3] This budget is reallocated from previously being under the vote of the Ministry of Finance in FY 2024 to the Ministry of Internal Affairs (MIA) beginning in FY 2025.

The **Tonga Integrated Aged Care Project jointly funded by** ADB, Japan and the Climate Change Fund, this project establishes Integrated Aged Care buildings in four (4) districts (three (3) in Tongatapu and one (1) in Vava'u) which will emphasize the support for the elderly community. The government has confirmed the locations for these facilities and recruited the Project Management Unit and the Design and Supervision firm to begin with the designing of the aged care facilities. *Refer to **Annex III** for further details*.

- The ongoing **National Water Tank Project** administered by the Climate Change Department of MEIDECC in collaboration with Town Officers (including other related projects) to distribute water tanks to households. As of the date of reporting over 9,000 water tanks across Tonga have been distributed.

- The Climate Change Department continues to administer **WASH facilities** projects especially for those households that need an upgrade of this essential facility. This includes families considered for the 'Tapanekale' housing projects. It is important to note that designs for WASH facilities for residential homes differ from that provided for schools. Also, projects who provide these facilities may also differ depending on their priorities and goals.

- Implementing one of the government's new initiatives to address extreme poverty, the **Tapanekale Affordable Housing Program,** with an allocation of $1.0m is still in progress. It provides either *one bedroom* for household size 1 - 4 and *two bedrooms* for 5+ member households. These houses come with living space, kitchen, WASH facilities and a water tank.
- The ongoing implementation of the **Skills and Employment Training (SET)** project, supported by the World Bank, has seen over 3,600 secondary and tertiary students' school fees paid. This support is targeted for the vulnerable households unable to pay school fees for their children. This project is expected to be completed in September 2024, while the next phase will be picked up by the new *Tonga Pathway to Employment under World Bank IDA 20*. The objective is to promote high school retention and graduation and to improve the employability of at-risk youth to facilitate the transition to the labour market.

- Continuation of the **Government Lifeline Tariff Discount Scheme** to support the governments pro-poor programme, with the beneficiaries including households that consume below 150kwht. *Refer to Annex III for more details*.

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

- Government had provided recovery supports, towards households, businesses sector who were affected by the pandemic and the HTHH volcanic eruption and tsunami. These include one-off support by UNICEF, targeting families with children, informal sectors businesses such as handicrafts and the subsidies on electricity to all consumers (household and business sector). The relocation of the Mango and 'Atataa people to Tā'anga and Masilamea at their homes were destroyed by the HTHH volcanic eruption.

Priority activities FY 2025-2027 for GPA 2 [Forward looking]

The policies stated above, and its targets, will continue to guide the implementation of the medium-term budget towards increasing quality of services for Social Protection. A total allocation of $41.2m is estimated in FY 2025 to support the implementation efforts under GPA 2, which is an increase by $17.0m or 70.2 percent increase from the current year FY 2024; mainly due to:

- $12.8m increase towards the Sports Development revolving fund under the Ministry of Internal Affairs allocation, which is sourced from revenues collected under the foreign exchange levy to assist with the cultivation and development of sports in the Kingdom in line with the Foreign Exchange Levy (Sports Development) Act.
- $1.8m as government contribution towards the construction of the ADB-funded Integrated Aged Care centers project in the FY 2025, commencing in FY2025, with the Main Center located in Matatoa and additional centers in Houma, Tatakamotonga, and Vava'u.
- $1.4m per annum in FY 2025 towards increasing the number of beneficiaries under the social welfare program monthly stipends, to include those from age 67 (vs. the current 70 years old) and will further expand in FY 2026 to include those from age 65 and age 63 in FY 2027.
- $0.5m for increases in the monthly stipends towards the elderly group, i.e., ages 67 – 79 at $90/month from $80/month, and ages 80+ at $110/month from $100/month.
- $0.2m for a 10.0 percent increase in the monthly stipend of those in the disability group
- Continuation of the 'Tapanekale' affordable housing program, which amounts to $7.0m over the medium term, including funding from development partners.
- Under the TVET program, 926 students benefited from the TVET Student Support Programme, with 411 being female. A survey of 143 beneficiaries resulted in a 100 percent satisfaction response regarding the program and its impact on their training. The training program is scheduled for completion by September 2024.
- Continuation of the Government Lifeline Tariff Discount Scheme to support the government's pro-poor programme.

GPA 2 BUDGET FY 2024-2027

Table 5: Detailed Budget FY 2024 – 2027 Allocation for GPA 2 ($m)

Budget Allocation for GPA 2: Social Protection	2023/24				2024/25		2025/26		2026/27	
	Original Estimate		Revised Estimate		Estimate		Estimate		Estimate	
	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development
Social Welfare Program (Ministry of Finance)	6.2		6.8		0.0		0.0		0.0	
Ministry of Internal Affairs	6.2		7.2		15.6		14.8		15.8	
Skills & Employment for Tongan Project		8.1		4.0		0.6				
Intergrated Age Care Project		2.0		0.2		3.7		6.6		6.6
Outreach and Community Consultations		0.5		0.5						
Tapanekale Housing Project				0.3		7.8		1.2		
Tonga Pathway for Employment						0.7		2.0		5.0
Sports Development Revolving Fund						12.8		6.0		6.2
Other		1.2		0.6				1.1		0.6
Sub-Total	**12.4**	**11.8**	**14.0**	**5.6**	**15.6**	**25.6**	**14.8**	**16.9**	**15.8**	**18.4**
TOTAL	**24.2**		**19.6**		**41.2**		**31.7**		**34.2**	

Note: Sports Development Revolving Funds for FY 2025, FY 2026 and FY 2027 are Government of Tonga funds only.

Source: Ministry of Finance (MOF)

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

This priority area aims to reduce the supply and use of illicit drugs through increasing national security and preventative measures. This is through reducing illicit financial and arms flow, strengthen the recovery and return of stolen asset and combat all forms of organized crimes. The following section reflects the related policies and activities had been established and implemented to achieve the proposed outcome and the target.

GPA 3 Review of Performance in FY 2024

Implementing the GPA 3 has been guided by these policies: **National Action Plan for Illicit Drugs (NAPID), National Deportation Reintegration, Tonga National Youth Policy (TNYP), Migration and Sustainable Development Policy (MSDP)**. This will be the fourth consecutive year of implementing the NAPID by the line ministries that have significant roles in National Security. The responsible MDAs continue to implement the activities that were agreed upon as outlined in the NAPID Strategy to achieve the three (3) key strategic outcome areas of Supply reduction, Demand reduction and Harm reduction.

The latest data from the Ministry of Police's M&E Reports shows that the success rate of drug related searches increased from 93 percent in FY2022 to 99.0 percent arrests in 2023. There was a slight increase from 5(FY2020) to 7(FY2021) in the number of inmates escaping from the prison detention facilities as recorded in the Tonga Prison Department's M&E Report FY2021 because of the high rate of drug use and no security fence to avoid prisoner's escapes.

The government provided funds to establish a specific Drug Unit at Tolitoli Prison and the building of the Security Fence. This reflects an increased effort by the Ministry of Police and the related MDAs to capture and reduce the supply, demand and harmful effects of illicit drugs in Tonga. In 2023, according to the Trafficking in Persons Report issued by the U.S Department of State's Office to Monitor and Combat Trafficking in Persons, Tonga was moved from Tier 2 Watch-list to Tier 2 as improvements were made by the demonstration of increased efforts to counter Trafficking in Persons.

A total allocation of $61.3m in FY 2024 was made towards efforts to combat illicit drugs, of which $54.9m or 89.6 percent is estimated to be utilised by the end of the year; with implementation efforts being reviewed as follows:

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

- A total of **$5.0m** was allocated in FY 2024 for the activities listed in the **National Action Plan for Combating Illicit Drugs (NAPID)** to address key strategic outcome area three (3), of which over 90.0 percent is expected to be utilized towards the end of the financial year:
  - **Supply Reduction**: Commissioning of the new combined stations for Police & Fire Emergency Station **in *Ha'asini*** was held in December 2023. The government continues to construct the station in ***Houma, Tongatapu in*** early 2024, then ***Leimatu'a*** Station, ***Vava'u*** in late 2024.
  - **Demand Reduction: *Returnees' policy*** – An allocation of $60k in FY 2024 aimed to support the ongoing activities currently undertaken by the six (6) existing NGOs in relation to support returnees. At this stage, request for assistance from these service providers (NGOs) is now open for consideration by an establish oversight committee, chair by the PMO and MIA. In addition, is the on-going construction of **Hu'atolitoli Security Fence** budgeted at $1.5m, the **prison facility for women** to begin in the last quarter of the FY 2024 at an estimated budget of $1.2m, and the completion of the **illicit drugs unit office** at the prisons department.
  - **Harm Reduction:** Tonga Police received a ***Forensic Electronic Fingerprinting Equipment, and a vehicle*** donated from the People Republic of China (PRC). This updated high-technology equipment will make the work of the Tonga Police, in addressing the harmful impacts of illicit drugs, more efficient. Purchases were also

made under the Illicit Drugs Fund in terms of high technological equipment for detecting illicit drugs and vehicles.

- The Ministry of Police hosted the **Foundational Intelligence Workshop** for combating **Transnational Organized Crime** in Tonga in collaboration with the New Zealand Transnational Crime Unit (NZ TCU). The workshop aimed to build local capacity in relation to intelligence through introducing the Pacific Transnational Crime Network (PTCN Intelligence Framework).

b) Established a new Illicit Drug Control Division of Prisons Department

- On-going review of the **Prisons Act** led by the Commissioner in collaboration with the Ministry of Justice. The amendment needs to strengthen these acts to combat Illicit Drugs, such as the Prisons and Probation Act. This review targets at strengthening the integration programs for prisoners being released both pre and post release.
- The Government of Australia and New Zealand continued to provide assistance to **HMAF for maintenance of naval ships, and communications** in supporting of national defence and to address the priority of reducing the use of illicit drugs. The assistance continues to provide annual military training in New Zealand, Australia, and the USA.
- This is the 23rd year of ongoing support through development projects towards the HMAF from the **Australian Defence Force (ADF)** with the objective to strengthen the efforts to combat Illicit drugs.
- In terms of the recurrent budget allocation in FY 2024 for the stated MDAs leading efforts under GPA 3 at a total of $37.0m (excluding the Illicit Drugs Fund), 97.0 percent is expected to be utilized at the end of the year towards mainly supporting the staff and operational expenses of these MDAs; including the implementation of the Tonga Police Force's Phase 1 of its renumeration review.

Priority activities FY 2025 - 2027 for GPA 3 [Forward looking]

The policies stated above, and its targets will continue to guide the implementation of the medium-term budget towards increasing quality of services to reduce supply and the use of illicit drugs effectively, and address harm reduction processes. A total allocation of $50.4m is estimated in FY 2025 for implementation efforts under GPA 3, which is a decrease by $10.9m from the current FY 2024 mainly because of completion on some components of development projects such as the construction of the new Leadership Centre at Touliki, maintenance of naval ships and construction of the Fangatongo Military Camp in Vava'u.

Other ongoing activities in FY 2025 include:

- Construction of the new fire and police stations in Houma, Tongatapu and the Leimatu'a Station, Vava'u;
- Upgrade of prisons facilities including those to cater for female inmates in Hu'atolitoli and to upgrade the prison facility in 'Eua and Vava'u.
- Implementation of phase 2 of the Tonga Police Force's salary review
- Strengthening existing and expanding fire emergency services in Tongatapu and the outer islands, including renovations, staff trainings in paramedic science
- Continued support for HMAF's operation and services for fuel and training
- Establish a service for the reintegration of criminal deportees sent to Tonga from New Zealand, Australia, and the US.

- Conduct remedial renovation work on the Tonga Police Headquarters and Corporate Offices to support organizational health and safety.
- Other activities include mentoring and advisory support for Tonga Police District Investigations units, Officer Safety Refresher Training for the Tactical Response Group, pre- and in-service training to improve domestic violence frontline response, investigations, and prosecutions, and minor refurbishments of safe spaces for domestic violence survivors, particularly in outer island branches.

BUDGET FY 2024-2027

Table 6: Detailed Budget FY 2024 - 2027 Allocation for GPA 3 ($m)

Budget Allocation for GPA 3: Combatting Illicit Drugs	2023/24				2024/25		2025/26		2026/27	
	Original Estimate		Revised Estimate		Estimate		Estimate		Estimate	
	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development
His Majesty's Armed Forces	12.0	11.6	11.0	8.9	12.3	2.7	12.2	6.0	12.2	5.4
Illict Drugs Fund	2.9	2.1	2.6	2.1	5.0	0.0	5.0		5.0	
Border Control (Customs)	2.7		2.5		3.0		2.9		2.9	
Prisons Department	4.5		4.8		4.3		4.5		4.5	
Ministry of Tonga Police	13.3		13.2		14.2		14.2		14.2	
Tonga Fire & Emergency Services	4.5		4.4		5.1		4.9		4.9	
Drug and Alcohol Treatment		1.5		1.2						
Tonga Police Development Program		5.3		4.1		3.2		0.7		0.7
Other		0.9		0.1		0.6		0.5		0.6
Sub-Total	**39.9**	**21.4**	**38.5**	**16.4**	**43.9**	**6.5**	**43.7**	**7.2**	**43.7**	**6.7**
TOTAL	**61.3**		**54.9**		**50.4**		**50.9**		**50.4**	

Source: Ministry of Finance (MOF)

4.2 Thematic Area 2: Quality of Services and Affordability

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

This priority area is geared towards enhancing quality educational opportunities for all, focussing specifically on fostering safer school environments, addressing dropout rates, and promoting gender equality. It aims to bolster vocational training programs to enhance employability, both domestically and internationally. The following section outlines the pertinent policies and initiatives devised and enacted to realize the envisioned outcomes and targets within this GPA.

GPA 4 Review of Performance in FY 2024

The primary focus of the Government Priority Agenda 4 is to ensure improved access to quality education for all and encourage both academic and vocational knowledge and skills. Implementing GPA 4 has been guided by the following policies: **Tonga Education Sector Plan (TESP), Joint National Action Plan (2) target 16, Digital Government Strategic Framework (DGSF), Pacific Regional Education Framework (PacREF), National Assessment & Examination Policy**, **Education Policy, Gender Policy, Employment Policy, Migration policy and TNU.**

Listed below are the progress of the key initiatives highlighted above that were delivered by the Ministry of Education in partnership with Non-Government Schools in Tonga. According to the Education Sector Analysis 2022, 106 Early Childhood Education (ECE) schools were established nationally in which 44.0 percent were government schools and 56.0 percent non-government. Additional support to the improvement of the classrooms as reflected by the student-classroom ratio was 15:1 for ECE, 21:1 at the Primary level and 15:1 at the Secondary level.

In terms of Schools with clean water it was reported that all ECE, Secondary, TVET and Higher Education have access to clean water was reported at 98.0 percent at the reporting period. There

is an increase in the student enrolment to TVET program over the past five years as stated in the Education Sector Analysis Report, 2022. This was one of the government's policy interventions to address the various learning capacities of each student and the growing number of school dropouts.

A total budget allocation of $101.0m[4] in FY 2024 was made towards efforts to help improve education, of which $90.4m or 89.5 percent is estimated to be utilised by the end of the year, with key developments as follows:

a) Scholarships, Subsidies and the Tonga National University

- Ongoing offering of scholarships to give students more opportunity in higher education. The priorities for funding include candidates with high-quality research plans and five (5) scholarships were awarded for Masters-level research candidates in 2023-2026. Half of all the Government scholarships were allocated to the education sector.[5] It is expected that the recurrent budget allocation for government-funded scholarships at $3.3m in FY2024 will be exceeded by 36.4 percent or $1.2m by the end of the year due to increased number of beneficiaries particularly identified technical capacity gaps such as civil engineering.

- Increased support to ECE primary schools through subsidies[6] or grant at $200 per head from previously $50 per head. Total allocation under the recurrent budget in FY2024 for government subsidies to non-government schools is at a total $9.2m, inclusive of the mentioned increase in grants to ECE schools.

- Support towards the upskilling and professional development of the young generation through the **Tonga National University (TNU)**. The University comprises 5 Faculties delivering over 50 programs ranging from Certificates to Diplomas and to Degrees. A total budget of $5.4m under MET's recurrent budget was allocated in FY 2024 towards the operationalization of TNU, of which will be fully utilized by the end of the fiscal year.

- **SET Project Update:** Successful Implementation and Strategic Allocation of Funds for CCT (Conditional, TVET, and Labor Migration) Components.

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

- **New government ECE centers**: As part of an ongoing effort to strengthen ECE in Tonga, the Ministry of Education and Training established 40 new government ECE centres.
- **Developed a National ECE curriculum framework**: The implementation of the new national ECE curriculum framework *'Learning through Play the Heilala Way'* includes training of all ECE teachers in Tongatapu and in the most remote island schools in the country.
- **Form 7 Results** accepted by the New Zealand Board of School to enrol directly to the University; approved by NZ and continues the same negotiation with Australia. There is no further requirement for the IELTs by Tongan students.

[4] The Tonga High School sports complex worth $31.0m under the development budget's original estimates for FY 2024 is re-classified under GPA 8 (public infrastructures)
[5] MET Monitoring, Evaluation, Research and Learning Plan FY 2023/24-2025/26
[6] This bullet point has the same rationale with the Approved GPA 4 Sub4.3: "Subsidies for ECE, primary schools".

- Basic Education to Form 1 & 2 level remains free for all government schools.

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

- Tonga Safe and Resilience School Project (TSRSP): A more resilient classroom coupled with better and improved Curricula development critically contributes to better quality education.
- Review of the Curriculum and Assessment Analysis of the Secondary Entrance Examination (Form 2 Examination 2023) for interventions and way forward action plans.
- The Annual School Census (ASC) and **Education Management Information System (EMIS)** are being updated with support from the World Bank.
- **Safer school project Component 1 Implementation Progress**: Delays to Component 1 Activities are continuing. These activities include the works to ***'Atele Dormitories and Tsunami Schools (Ha'apai Schools).***
- The ***Tsunami works are divided into 2 packages; Package 1*** is focused in Kanokupolu and Te'ekiu as both contracts were signed on the 4th of October 2023***. Package 2*** is mainly focused on 'Eueiki and Kolomotu'a with tendering expected to begin on March 30, 2024.
- Risk-based schools' contract for risk-based design firm should be completed by mid-March and work to begin within 9 months of contract signing.
- Implementation of the Safer school project Component 2 is in progress, include the EMIS system, revision of national curriculum and student learning assessments.

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

- Established of the M&E Framework under the Tonga Student Support Fund Dropouts Program to check the progress of the development of the education sector. Under the TVET Student Support Fund (TSSF), the total TSSF (including Outer Islands Living Allowance) paid out to beneficiaries from September 30, 2023, was $226, 820[7].
- The Ministry of Education in partnership with Save the Children Australia Project has strengthened the resilience of the online education system for Tonga, Hama e-Learning Platform (HeLP), by enriching its content, catering to a diverse range of education needs for students including those in the Inclusive Education sector, and supported primary schools (government and non-government) by deploying Educational Technology Resources to support both teachers and students with enhanced teaching tools.
- Provision of breakfast meals 2 times per week for primary school children is progressing well and shows the impacts in reducing the students' absence. The motivation to attend school compared to previous years, is a good sign of improvement.
- Launching of Tonga Apprenticeship Pilot Program in collaboration with Government of Tonga, Tonga Chamber of Commerce & Industries and 'Ahopanilolo Technical Institute.

[7] TVET Compile Data as of September 2023 (figures for 2023 are not cumulative).

Priority activities FY 2025-2027 for GPA 4 [Forward looking]

The outlined policies and their corresponding targets will persist in steering the implementation of the medium-term budgetary strategy aimed at enhancing education accessibility for all, with a focusing on mitigating dropout rates. This will be achieved through diligent monitoring of enrolment rates across all educational tiers, completion rates at every level, and ensuring gender equality as shown by the Gender Parity Index (GPI) across all educational strata. The specifics of these targets are elaborated in ***Table 7*** below.

Key initiatives aimed at tackling GPA 4 include raising subsidies for Early Childhood Education (ECE) Schools to $200 per student, enhancing primary schools to accommodate up to Form 2, alongside various enhancements in secondary education. Efforts include expanding inclusive and special education services, backed by support from the Global Partnership for Education, Government of New Zealand, and UNICEF. Strengthening the Truancy unit, advancing the Hama eLearning Platform through funding from the Global Partnership for Education, and offering scholarships to economically disadvantaged students via the Skills and Employment Tonga project, financed by the World Bank, are also pivotal components of these priority activities.

Table 7: Gender Parity Index

Indicator	Sub-Sector	2022	2025
	ECE	2586	3500
	Primary	16545	17000
	Secondary	15664	17000
Enrollment	**Total**	**34795**	**37500**
GER	ECE	36.9	50
	Primary	119	100
	Secondary	90.7	95
	ECE	35.3	50
NER	Primary	99	100
	Secondary	81.7	90
	ECE	1	1
Gender Parity Index	Primary	0.94	1
	Secondary	1.04	1
	ECE	97	100
Completion Rate	Primary	98	100
	Secondary	93	95

Source: MET Corporate Plan FY 2024

A total allocation of $113.4m is estimated in FY 2025 for implementation efforts under GPA 4, which is a $12.4m increase from the current year FY 2024 mainly because of delivery of the following priorities in FY 2025 – 2027:

- $3.0m increase in teachers' salaries allocation to cater for a 10.0 percent duty/ retention allowance
- Increase in government-funded scholarships to $4.0m from $3.3m.
- $0.5m for a 10 percent increase in grant allocation to non-government secondary and TVET schools beginning in FY 2025
- Free education up to Form 5 level in government schools (estimated at $1.0m worth of school fee revenues forgone to government)
- $0.1m grant to the Hango Institute of Agriculture in 'Eua.
- Expand provision of inclusive education to outer islands.
- Skills and Employment for Tongans project (near completion in Sept 2024).and will provide additional equipment to support the training of TVET Teachers at TIOE. The Project will also recruit a consultancy for the review of Tonga Qualifications Framework, to be completed by May 2024.
- Refurbishment and construction of the Queen Salote Nursing School, new fabricated TVET facilities and continuation of the Tonga Safe and Resilient Schools Project.
- Curriculum review for Form 1 to 7 will continue and is expected to be printed for distribution in FY 2025. A team of experts from the United Kingdom has arrived in Tonga in April 2024 to review the drafted curriculum (Stage 2).

- Provision of breakfast meals 2 times per week for primary school children
- Implementation of the Tonga Apprenticeship Pilot Program.

GPA 4 BUDGET FY 2024-2027

Table 8: Detailed Budget FY 2024 - 2027 Allocation for GPA 4 ($m)

Budget Allocation for GPA 4: Quality Education	2023/24				2024/25		2025/26		2026/27	
	Original Estimate		Revised Estimate		Estimate		Estimate		Estimate	
	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development
Ministry of Education and Training	63.1		65.5		70.6		70.6		70.6	
Tonga Safe and Resilient Schools Project		10.0		5.1		16.3		28.0		33.0
Schorlarship		9.5		6.9		9.0		9.0		9.0
Skills & Employment for Tongan Project		15.1		9.5		0.4				
Queen Salote Nursing School		2.5		2.0		6.0				
Upgrade RMS						2.5		1.1		1.1
Education Curriculum Review								2.7		2.7
IUMI Stori - Early Childhood Education						0.8				
Fabricated TVET facility						5.0				
Inclusive Education Programme				0.4		2.4		2.3		2.3
Other		0.8		1.0		0.4		0.8		0.5
Sub-Total	**63.1**	**37.9**	**65.5**	**24.9**	**70.6**	**42.8**	**70.6**	**43.9**	**70.6**	**48.6**
TOTAL	**101.0**		**90.4**		**113.4**		**114.5**		**119.2**	

Source: Ministry of Finance (MOF)

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

Guided by the overarching objective of ensuring accessible healthcare for all, the Government Priority Agenda 5 (GPA 5) focuses on enhancing the quality and affordability of healthcare services, with particular attention to critical health issues such as Non-Communicable Diseases (NCDs) and fortifying resilience against potential pandemics. By emphasizing the development of robust systems capable of withstanding challenges and crises, GPA 5 aims to ensure resilience in the face of evolving health threats.

GPA 5 Review of Performance FY 2024

GPA 5 endeavours to improve public health outcomes, facilitate equitable access to healthcare services, and enhance overall community well-being. Implementing GPA 5 is further guided by policies which include the **Health Policy, Non-Communicable Disease (NCD) policy, School Food Policy, Food Pathway for food security, JNAP 2 target 21 and Cluster System (WASH)**. The **Tonga Strategy for the Prevention and Control of Non-Communicable Diseases 2021-2025**, outlines targeted actions to combat the growing burden of NCDs while promoting preventive measures.

Tonga has made progress in this priority area which reported in the SDG Progress Report 2020, included achievements under SDG 3.2.1 -*under-five years mortality rate* was 11 per 1,000 live births and SDG 3.2.2 -*Neonatal mortality rate* was 5 per 1,000 live births were achieved in 2019 and maintained the same rate in 2023.

A total allocation of $66.0m in FY 2024 was made towards efforts to help improve access to quality and affordable healthcare, promote healthy living through implementing the NCD Strategy. It is estimated that $72.4m or 9.7 percent more than the original allocation is estimated to be utilised by the end of the financial year on the following key developments:

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

- **Tonga adopts WHO COVID-19 preparedness and response recommendations** include continuing the immunization program across Tonga for preventative purposes and to minimize costing of curative in the future.
- Ongoing surveillance in the borders for communicable diseases, including **COVID-19 under the MOH Wash Cluster - Response Plan.**

b) NCD: Healthy lifestyles and preventative measures

- Health Promotion and Disease Prevention: **Through Grants and Sponsorships program, Tonga Health** continues to strengthen individuals, families, and communities' capacity to make healthy choices in key settings.
- **Multisectoral stakeholder engagement and partnerships**: This includes the integration of NCD Strategy, sector plans into the National Planning process, aligning targets of the NCD Strategy to the ministry's outputs in the Corporate Plan.
- Rolling out the Package of Essential Health Services (PEHS) under Tonga Health Sector Support Program (THSSP3) through the Community Health Centres to provide **preventative measures for NCDs to all communities.**
- **Sports for health under MIA -** Sports Active and Recreation Division through their activities of Kau Mai Tonga (KMT) for all communities & Fiefia Sports.
- **The Ministry of Fisheries** aimed at ensuring food security which also promotes NCD led healthy life by providing subsidized snapper fish for the local people at the affordable price of $7 per kilogram. (refer to Annex III under GPA 5 for further details)
- **Tonga Health Sector Support Program 3 (THSSP)** has been initiated to support the various policies and frameworks in the Health Sector including the Tonga Strategy for the Prevention and Control of Non-Communicable Diseases 2021-2025. It supports and guides Tonga's efforts to prevent and reduce NCDs through professional development and training of doctors and nurses, along with procuring essential medical equipment and pharmaceuticals. One of its achievements include an assessment of the Sewerage and Water System in Vaiola Hospital in August 2023.

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

- Commissioned of the **Central Pharmacy Warehouse** with a total value of NZ$1.6m (Feb 2024).
- Recurrent budget allocation of $0.5m was allocated under MOH in FY2024 to host the Open Heart International (OHI) team of heart specialists as volunteers from Australia to conduct heart surgeries in Tonga, of which over 20 cases were successfully conducted; saving government an estimated $1.9m should these cases had been referred overseas for treatment.
- Recurrent budget allocation of $0.2m was allocated under MOH in FY2024 to host the health Ministers from the Pacific's regional meeting in Tonga, of which included major renovations made to the main hospital and health facilities during the 1st quarter of the fiscal year.
- Rebuilding of **the Queen Salote Nursing School** and the extension of existing Wards in preparation for future pandemics, with a confirmed funding of AU$5.0m.
- Hand-over of Water, Sanitation and Hygiene facilities completed for Fasi mo e Afi Government Middle School (GMS), Hoi Government Primary School (GPS) and Ma'ufanga GMS.

- **Free Dialysis Centre** a key milestone in the Universal Health Coverage for Tonga marked by the groundbreaking of the Free Dialysis Center to be built at Veitongo. This milestone increases the capacity of the Ministry of Health to treat NCD patients. It minimizes the financial burden of overseas medical referrals.
- **Reconstruction of Ngu Hospital in Vava'u** is currently in its design phase, with the potential to start with the upgrade of the health staff-quarters. Total funding confirmed for this project amounts to $40.0m of which DFAT had confirmed AU$10.0m ($15.0m) and US$15.0m ($30.0m) from the World Bank.

Priority activities FY 2025-2027 for GPA 5 [Forward looking]

The policies stated above, and its targets, will continue to guide the implementation of the medium-term budget towards improving access quality and affordable healthcare system focusing on monitoring COVID-19, NCDs and preventative measures. As such, a total allocation of $78.9m is estimated in FY 2025 for implementation efforts under GPA 5, which is a $12.9m or 19.5 percent increase from the current year FY 2024, to maintain ongoing programs with additional focus over the medium-term on the:

- Need to retain and recognize special skills in the health workforce, including the award of retention and scarcity allowances to medical personnel worth around $2.0m, effective in FY 2025.
- Maintenance budget for health facilities increasing to $1.5m per annum.
- Construction of the new hospital in Vava'u, including the upgrade existing staff quarters, rebuilding new staff quarters, and supplying full equipment to serve as the main hub for Vava'u, Ha'apai, and Niua.
- Ongoing implementation of the Tonga Health Support System project.
- Multi-Sectoral Response to the NCD Crisis, aligned with Tonga's National Strategy for the Prevention and Control of Non-Communicable Diseases (2021-2025).
- E – Health project targets to train Ministry of Health officers, practitioners, and nurses on the eGovernment system.
- Ongoing support towards universal health coverage (90.0 percent of vaccine coverage), the vaccine campaigns and distribution of HPV vaccines (80.0 percent of young females across Tonga).
- Renovations to five (5) Health centers in Fua'amotu, Nukunuku, Houma, Kolovai, Folaha, 'Eua Hospital, Vava'u, Ha'apai (Nomuka and Foa clinics), and Niuas.

GPA 5 BUDGET FY 2024-2027

Table 9: Detailed Budget FY 2024 - 2027 Allocation for GPA 5 ($m)

Budget Allocation for GPA 5: Quality & Affordable Healthcare	2023/24				2024/25		2025/26		2026/27	
	Original Estimate		Revised Estimate		Estimate		Estimate		Estimate	
	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development
Ministry of Health	55.7		57.5		56.2		55.9		55.6	
COVID-19 Support Program		2.8		3.1						
Tonga Health Support System		2.9		3.0		5.9		0.6		
Introducing E-Government through Digital Health		0.1		0.7		0.5		0.5		0.5
Preventative Support Programme		2.3		2.2		1.0				
Health Corridors Programme		1.1		0.9		2.5		1.9		1.9
Central Pharmacy Warehouse		1.0		1.1						
Vavau Hospital Reconstruction						8.0		23.0		20.0
Pacific Sexual Reproductive Health & Rights Project						1.0		1.0		1.0
Medical experts & Overseas medical treatment				0.9		1.6		1.6		1.6
Korean Annual Assistance				1.3		1.0		1.0		1.0
Other		0.1		1.7		1.2		1.9		0.4
Sub-Total	**55.7**	**10.3**	**57.5**	**14.9**	**56.2**	**22.7**	**55.9**	**31.5**	**55.6**	**26.4**
TOTAL	**66.0**		**72.4**		**78.9**		**87.4**		**82.0**	

Source: Ministry of Finance (MOF)

GPA 6: Building quality and easy access to government services and public enterprises focusing upon increased access to high-speed broadband technology and more affordable energy, communication, drinking water and the development of a clean environment.

GPA 6 aims to enhance the quality and accessibility of government services and public enterprises, focusing particularly on improving access to high-speed broadband technology and making essential services such as energy, communication, and drinking water more affordable. It seeks to promote the development of a clean environment to ensure sustainable living conditions for all citizens.

GPA 6 Review of Performance FY 2024

The Government Priority Agenda 6 implementation activities has been guided by these following policies: **Joint Policy Reform Matrix (JPRM), National Determined Contribution (NDC), Digital Government Strategic Framework (DGSF)[8], Long-term Low Emission Development Strategy (LT-LEDS)[9], Communication Policy, Energy Policy and Environmental policy.**

According to the Voluntary National Review (VNR) Report 2019 SDG 13.1.2 Score of adoption and implementation of National Disaster Risk Reduction Strategies in line with the SENDAI framework SDG was 100 percent and SDG 13.2.1-Number of countries with Nationally Determined Contributions (NDC) with Tonga the second NDCs Reports were submitted. Tonga reached 27.0 percent Renewable Energy and line losses maintained below 8.0 percent in 2023.

A total allocation of $225.0m[10] in FY 2024 was originally estimated to support delivery of quality and accessible public services, of which $204.5m or 90.9 percent is estimated to be utilised by the end of the year, of which the key highlights of progress under GPA 6 include:

a) Public Sector Reform Program

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

  Pillar 1: ***Fiscal debt sustainability and public sector management:***

  - **Amendment of the Public Finance Management Act (PFM):** The amendment PFM Act is in the pipeline to be tabled in Parliament. This was followed by the formulation of the PFM Reform and Rolling Plan Roadmap 2024 - 2029. There are key specific objectives outlines in the PFM Reform and Actions Matrix including:
    a). Aggregate Fiscal discipline
    b). Efficient allocating and spending of the public resources
    c). Efficient Operationalization
  - **Electronic Sales Register System (ESRS)** implementation has met the target population across Tonga, and it shows an impact on the Tax collection from Consumption Tax (CT) and is now rolling out to phase 2.
  - Approved of the draft **Public Service Fraud Policy** and the review of the **Public Service (Disciplinary Procedure) Act**, with a change of name for the Act likely to be called the "Tonga Public Service Fraud Policy".

[8] PMO- Digital Transformation Department
[9] MEIDECC, Energy Department & Climate Change Department
[10] $1.4m allocated under the recurrent budget for the Meteorology Department and $0.3m for government's contribution to the parametric insurance, are being reclassified under GPA 1 from GPA 6 due to its relatively significant linkage in building national resilience through early warning systems, amongst others

- A Debt Annual Plan has been agreed to with the donor partners to prepare by the Ministry of Finance with the aim to assist the Government in its debt repayment schedule in the medium term.

Pillar 2: ***Enhancing Resilience to Climate Change and Disasters:***

- The **National Disaster Risk Management (DRM) Act 2021** was enacted last year with specific 3 objectives to i). Reducing Disaster Risks, ii). Efficient Disaster Response and iii). Efficient Disaster Recovery.
- **Multi-Hazard Early Warning System (MHEWS) Policy** is a new policy that aligned with the DRM policy with key elements of systematic people-centred early warning system such as disaster risk knowledge, monitoring analysis and forecasting of the hazards and consequences, effective warning dissemination and preparedness and response capacities.
- **National Emergency Fund (NEF):** Ministry of Finance in-placed a guideline for operationalizing of NEF to strengthen the application, screen and reporting of the funds.
- **Adaptive Social Protection (ASP) Framework** had put in anticipated to submit to Cabinet by April which prioritize the establishing of the *National Social Registry* for data collecting for policy advice and preparation for disaster event.
- Drafted the **Tonga Ocean Policy** to accompany the Ocean Management Bill with the aiming to encompass aspects such as seafood, marine life science, marine plastic, circular economy, offshore renewable energy, tourism and maritime support, to be submitted to Cabinet by June 2024.

Pillar 3: ***Enabling environment for the private sector:***

- **Trade Facilitation:** Confirmed two exporters to pilot the Trusted Trader Program or Authorized Operator (AO) program.
- **Competition and Consumer Protection Bill:** Bill is currently reviewing to strengthen the online business aspect and the standard developments, such as receipts, fine and financial regulations.
- **Energy Sector:** Energy Department-MEIDECC led the formulation of the Energy Regulation to effectively guide the implementation of the TERM+.

b) Establishment of the Anti-Corruption Commission

- The office of the Anti-Corruption Commissioner is expected to be fully operationalized in July 2024, with an allocation of $0.8 m in FY 2025 for staffing and operational expenses.

c) E-government project [11]

- Implementing the **Tonga Digital Government Support Project** is in progress including the drafting of the legislations related to the following areas:

  i). Amendments to the Birth, Death, Marriages Registration Act

  ii). Amendments to the National ID Card Act.

  iii). Cybersecurity Bill had been deferred by the Law Committee to finalize the penalties before submission to the Cabinet.

  iv). Cybercrimes Bill

[11] This focus area of the Budget Strategy is the same rationale as the approved GPA 6 sub-GPA 6.2 "Digital Transformation System"

v). Data Protection & Privacy Bill

d) Fiber-optic Project

- Grant signing of the Tonga Cable Ltd, estimated project cost of US$32m to cater for the **second Fiber-optic International Cable for Tonga**, that will be installed through Vava'u. The project is co-financing by the Government of Australia and the Government of New Zealand and planned to be completed by the end of the 3rd quarter, 2025.

e) Reliable, safe, and affordable water supply

- Formulation of the **Water Resources Sector Plan**, with a draft to be submitted to Cabinet in FY 2025.
- **Water Solar Pump Projects** (funded by JICA, International Solar Alliance -ISA, Canda)**:** This project covered the Rural areas in Tongatapu, Vavau and Ha'apai.
- The Tonga Water Board (TWB) has successfully completed the installations of the **water pumps** for the new 'Atataa residents in 'Atata Si'i (Masilamea) and Mango residents in 'Eua.
- The '**Eua Water Quality Improvement Project**s completed and commemorates the 1st year Anniversary Matavai in Kenani funded by the Sione Foundation.

f) Affordable Renewable Energy

- **Energy Sector Reform:** The ***Energy Regulation*** is currently on the consultation stage; 1st draft of the ***Monitoring & Evaluation Tool*** to monitor the progress of the TERM+ targets have been circulated for comments and expect to complete by the end of the current FY. The appointment of the new ***Energy Commission and the Advisory Committee*** is in progress targeting to confirm in the beginning of the FY 2025.
- **Energy Targets:** Tonga reached 27.0 percent ***Renewable Energy*** of their total electricity generation as of December 2023, because of commencing the Energy Projects across Tonga islands, including the Niuas. The target for the line losses maintained below 8.0 percent which was 6.7 percent in 2023. The Energy Department Tonga Power Limited (TPL) work collaboratively with the MEIDECC to achieve the targets outlined in the TERM+.
- **Energy Development Projects** are targeted to achieve the TERM+ targets. Refer to ***Annex III*** which lists the progress of the Renewable Energy Projects that have been implemented.
- **TREP Project** includes installations of renewable-based hybrid systems and mini-grids for outer islands of Vava'u, namely 'O'ua, Tungua, Kotu, Hunga, Mo'unga'one, and Niuafo'ou, scheduled for installation in April 2024 and completion by June 2024.

g) Public services:

- Tonga Post invests $6.7m in national home and street addressing initiatives for standardized systems.

- The organisational review lead by the Public Service Commission also aims to identify some services that are currently provided by the Government to be outsourced to the private sectors, such as the security services, delivery of mails, and cleaning services. This review is also part of the approach that the Government implements in trying to rationalise its budget and to achieve efficient service delivery.

- As part of ensuring that the two Niuas are benefiting from accessing the communication services provided to the public. The Legislative Assembly (LA) had

agreed with the Tonga Broadcasting Commission (TBC) to broadcast the discussion undertake in Parliament through the AM Radio Station, as this is the only Radio Station that has vast coverage that can reach the two Niuas. This grant agreement will be funded by the Government through the LA's vote, beginning in FY 2025 with a $0.2m recurrent budget allocation. In the meantime, in FY 2024, the broadcasting of debates is being funded under the Ministry of Finance's government general fund vote.

Priority activities FY 2025 – 2027 for GPA 6 [Forward looking]

The policies and targets outlined above will serve as guiding principles for implementing the medium-term budgetary framework, with a focus on enhancing the quality and accessibility of government services, high-speed technology services, affordable energy, communication, access to drinking water, and a clean environment. These policies include the Communication Policy, Energy Policy, and Environmental Policy, which prioritize improvements in communication infrastructure, energy sustainability, and environmental conservation, respectively. Targets such as those outlined in the Joint Action Plan 2, Tonga Energy Efficiency Master Plan (TEEMP), and Digital Government Strategic Framework (DGSF) will inform budget allocations and resource allocations to support initiatives aimed at achieving these objectives. By aligning budgetary decisions with these policies and targets, Tonga aims to ensure sustainable development, equitable access to essential services, and improved living standards for its citizens.

A total allocation of $253.0m is estimated in FY 2025 for implementation efforts under GPA 6. The $28.0m increase from the current FY 2024, is mainly because of delivery of the following key priorities in FY 2025 – 2027:

- Public Sector Reform Program ($1.3m under the recurrent budget of the Prime Minister's Office and similarly $0.5m under the Ministry of Finance).
- Upgrade of the revenue management system (RMS) to maintain and enhance revenue administration services to the public, which will be sourced under the development budget in FY 2025 at a total cost of NZD$3.9m over the next medium-term.
- Increase in the allocation towards the civil service staff PMS awards from $2.0m to $4.2m.
- Address inflationary pressures on civil service compensation through a 5% COLA in July 2024 and enhancing performance through a $2.2m increase on the PMS annual allocation.
- Operationalization of the Office of the Anti-Corruption Commission.
- E-government project.
- Fiber-optic Project.
- Reliable, safe, and affordable water supply and renewable energy.
- Main increases in recurrent expenses: Debt repayment, parliamentary sessions live broadcasting, His Majesty's 65th birthday celebration, Forum for Economic Ministers Meeting (FEMM) to be held in Fiji but chaired by Tonga, strengthening human resources of the Energy Department to implement the Energy Act 2021, expansion of the Ombudsman office to Ha'apai, establishment of the youth diversion scheme under MOJ, $0.2m government contribution towards the construction of the new Parliament building project.
- Additional energy projects
    - Floating Solar Plus Project,

- Nuku'alofa Network Upgrade Project (NNUP) Project at Sia'atoutai, Hofoa, Sopu, and Hala'ovave targeted for completion by December 2024.
- Grid Strengthening Project supports Tonga Power Limited's for a battery energy storage system/power plant.

- TWB plans rehabilitation and construction of Nuku'alofa water distribution network.

GPA 6 BUDGET FY 2024 – FY 2027

Table 10: Detailed Budget FY 2024 - 2027 Allocation for GPA 6 ($m)

Budget Allocation for GPA 6: Quality & Accessible Public Service	2023/24				2024/25		2025/26		2026/27	
	Original Estimate		Revised Estimate		Estimate		Estimate		Estimate	
	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development
Palace Office	4.9		4.2		4.9		4.3		4.3	
Office of the Legislative Assembly	15.0		15.4		16.0		16.1		16.0	
Office of the Auditor General	2.2		1.9		2.2		2.2		2.2	
Office of the Ombudsman	1.6		1.4		1.7		1.7		1.7	
Prime Minister's Office	10.2		9.2		12.3		11.5		11.4	
Ministry of Finance	101.9		96.4		113.6		114.6		114.5	
Ministry of Revenue & Customs	8.3		7.2		8.2		8.1		9.2	
Ministry of Public Enterprises	1.9		1.3		1.9		1.9		1.9	
Ministry of Justice & Prisons	8.9		8.1		9.0		9.0		8.9	
Attorney General's Office	3.3		2.8		3.4		3.5		3.5	
Ministry of Lands, Survey & Natural	6.5		6.2		6.7		6.8		6.8	
Office of the Public Service Commiss	2.1		1.9		2.1		2.2		2.2	
Statistics Department	3.0		2.9		3.0		3.3		3.3	
MEIDECC	5.9		5.4		7.0		6.9		6.9	
Office of the Anti-Corruption Commi	0.8		0.0		0.9		0.7		0.7	
TREP - Tonga Renewable Energy Project		21.2		18.5		5.1		7.0		
Nuku'alofa Network Upgrade Project		4.0		3.1						
Outer Island Renewable Energy Project		0.8		0.6						
Canada and Republic of China Donation				1.4				0.7		0.7
GRID Enhance & Generator Set						17.5		6.0		5.0
Subsidies and Street Light				4.8						
Hawaiki Cable project		3.3				5.0		10.0		10.0
Integrated Urban Sector Resilience Project		9.9								
Tonga Digital Government Support Project		7.6		4.7		0.7				
Wind Power Station				3.9		28.0		0.5		0.3
South Australia Metropolian Fire Station				1.4		2.7		2.0		2.0
Other		1.7		1.8		1.1		1.6		0.9
Sub-Total	**176.5**	**48.5**	**164.3**	**40.2**	**192.9**	**60.1**	**192.8**	**27.8**	**193.5**	**18.9**
TOTAL	**225.0**		**204.5**		**253.0**		**220.6**		**212.4**	

Source: Ministry of Finance (MOF)

4.3 Thematic Area 3: Progressive Economic Growth

GPA 7: Maximizing trade opportunities focusing on drivers of economic growth through strengthening of business enabling environment.

GPA 7 embodies a strategic approach to capitalize on trade opportunities, placing paramount emphasis on enhancing economic advancement through the reinforcement of the business enabling environment. This is done through targeted interventions aimed at enhancing competitiveness and facilitating market access, GPA 7 also seeks to unlock the full potential of trade, driving growth, creating jobs, and propelling the nation towards prosperity.

GPA 7 Review of Performance FY 2024

The government remains resolutely committed to nurturing sustained economic growth, with a primary aim of enhancing the well-being of all Tongans. This steadfast commitment is reinforced by a robust and all-encompassing policy framework and strategic roadmaps. Among these are the **Joint National Action Plan 2 targets 4, 6, 7, and 9, the National Determined Contribution (NDC), Tonga Tourism Sector Roadmap (TTSR), Tonga Agriculture Sector Plan (TASP), Tonga Fisheries Sector Plan (TFSP), National Infrastructure Investment Plan (NIIP), Tonga Trade Policy Framework (TTPF), Tonga E-commerce Strategy Roadmap (TESR), Food Pathway, and Tonga Labour Mobility Policy (TLMP).**

The key economic sectors performance namely agriculture, fisheries and tourism have shown signs of improvement contributed by the continuing government interventions to sustain and restore

growth following the two events of COVID-19 and volcanic eruption *(refer to section 5.1 Table 14 for the details).*A total allocation of $60.1m in FY 2024 was made towards efforts to help improve trade opportunities and private sector development, of which $49.8m or 82.9 percent is estimated to be utilized by the end of the year, with implementation efforts being reviewed:

a). Fisheries Sector

Outlined below are recorded of the progresses of the programs led by the Ministry of Fisheries:

- Plans and collaborate with the Ministry of Agriculture and Statistics Department to conduct a **Tonga National Fisheries Census (TNFC)** which is now scheduled to undertake in FY 2024.

- Implementation of the **Pathway to Sustainable Oceans Project (PSOP)** *(US$10.0 m)* implemented within six years, funded by the World Bank**.** The objective of this project is to improve the management of fisheries and aquaculture in the Recipient's territory such as pearl farming, sea cucumber, giant clams, finfish, mud crab, seaweed and squid fishery.

    - The progress as of today is the i). procuring of the ***32 SMA boats and 3 compliance boats*** – (iii) the design and supervision contract for infrastructure works has been awarded and underway; (iv) design and construction contract for the Sopu ***hatchery and mariculture*** center has been tendered; (v) the ***draft final report*** for the ***Fisheries Infrastructure Master Plan Study*** has been received; and (vi) there is a continued roll out of implementation activities on the ground including ***SMA monitoring*** and extension activities, the vessel registration program, creel data survey analysis and procurement of goods for marble pearl farmers and ***3 compliance patrol boats*** will deliver by June,2024, extension to the office and marble pearl facility Vava'u.

- Long line fishing using **Fish Aggregation Devices (FAD)**: The Cabinet approved the revision of the Deepwater Fisheries Management Plan 2024 - 2026 and the implementation effectively started.

- Support the fishery sector through the **Public Private Partnership** grants to support fishing local markets by buying ice plants for Vava'u Fish Market and renovating the Tu'imatamoana Export Facility including the equipment for the market.

b). Agriculture Sector

Outlined below are recorded of the progresses of the programs led by the Ministry of Agriculture, Food and Forestry:

- The Government of Australia is supporting the draft of the Agricultural Sector Plan for the next medium term. Australia agreed in July 2023 to provide financial and formulate the new "Tonga Agriculture Sector Plan 2024-2028".
- Support the growers and exporters through the **PPP** allocation, targeting to finance large investment projects in partnership with the private sector to restore growth in the Agriculture Sector.
- The Cabinet approved the **Tonga Circular Economy System Project** as one of the PPP initiatives to boost growth in the Agricultural sector. The project has 3 components: *i)* Energy phase, *ii)* Cropping phase and *iii)* Feed-mill. It is expected to start in the FY 2025 (*refer to details in* ***Annex 1***).
- Conducted the first consultation on the **Tonga National Agricultural Census (TNAC)** with the key stakeholders, especially those that are directly involved in the

TNAC, was conducted in January 2024. This census aims to get updates of the agriculture stocks in Tonga to help decision making in improving this sector.

c). Tourism Sector:

Outlined below are recorded of the progresses of the programs led by the Ministry of Tourism:

- **Inspection and Tonga mark rating** – trainings that were provided in the last six months to ensure the tourist accommodations in Tonga meet the regional and international standard, this includes trainings for the hotels, motels and resorts operators.
- The **"Haamo 2 Ke Langa A Tonga "** is a new building complex to be constructed on the royal estate "Polata'ane", with the initial completion date is by June 2024. Once this project is completed, it will increase the number of accommodation available to the tourism sector which also addresses the shortage of high-quality accommodation.
- The Ministry of Tourism and MTED are currently tackling the challenge of enhancing compliance with regulations among **whale watching** operators, particularly in updating their licenses. This effort is focused on 26 operators in Vava'u, 4 in Tongatapu, 2 in Eua, and 9 in Ha'apai.
- Effective implementation of the **Beautification Program** through upgrading of Nuku'alofa Waterfront Areas from Sopu to Pātangata, cleaning up of the Historical/ Tourist Sites, Public Facilities including Captain Cook Landing, Houma Blow Holes, Fale Tonga at the waterfronts and Popua Park Fountain, Planting of the Māvaetangi at the International airport Roadside and Vuna wharf.
- Increased tourism activities from all relevant **Niche Market.**
- Recovery support towards the tourism operator affected by the HTHH volcanic eruption; including the informal handicraft businesses, funded from the PPP allocation.
- Developed the sector through increasing tourist arrival and earning - increase in the number of **Cruise Ships** arrived on our shores. (Tongatapu, Vava'u, Ha'apai), 20 Cruise Ships arrived during the first half of the FY 2024.
- Building of the **National Museum Facility** in Nuku'alofa, supported by Saudi Arabia, anticipated to be completed in FY 2025.
- Continuation of the tourism road maintenance towards the Tourist sites.

d). Business & Trade Sector:

The following section outlines the progress of the programs led by the Ministry of Trade and Economic Development:

- Empowering and uplifting the profile of businesses through the **Heilala Tax Services Program**.
- Targeting recovery support towards those **Business Sector** who were affected by HTHH volcanic eruption, funded from PPP funds.
- Implementing the **Consumer and Competition Policy** through the development of the Standardisation Roadmap for Tonga.
- Hosting of the **Annual Trade Fair** events in August 2023 to empower the business enabling environment for the private sectors through competitions, marketing, advertising and to promote the local products.
- Upgrading of the flea market in Tofoa, as supported by Tonga Market Corporation Limited (TMCL).

Priority activities FY 2025-2027 for GPA 7 [Forward looking]

The policies stated above and its targets[12], will continue to guide the implementation of the medium term budgetary towards maximizing trade opportunities focusing on drivers of economic growth through strengthening businesses enabling the environment. As such, a total allocation of $61.8m is estimated for FY 2025 for the implementation efforts under GPA 7. This is an increase by $1.7m from the current FY 2024, mainly because of the following key priorities:

- Increase by $1.1m for Public Private Partnership (PPP) projects to $9.1m
- Multi-purpose facility to enhance local production and exports of value-added goods, $80k for feasibility study (FY 2025) and facility construction at $3.5m (FY2026):
- $0.25m grant for women and youth business empowerment
- Ongoing development of the Tonga Standardisation Roadmap
- Construction of the new national museum
- Ongoing implementation of the activities under Pathway to Sustainable Oceans Project.

GPA 7 BUDGET FY 2024-2027

Table 11: Detailed Budget FY 2024 - 2027 Allocation for GPA 7 ($m)

Budget Allocation for GPA 7: Trade & Private Sector Development	2023/24 Original Estimate		2023/24 Revised Estimate		2024/25 Estimate		2025/26 Estimate		2026/27 Estimate	
	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development
Ministry of Finance (Public-Private	5.4	2.6	3.4		0.0		0.0		0.0	
Ministry of Trade & Economic Deve	6.6		6.5		7.3		10.7		7.2	
Ministry of Agriculture, Forestry & I	9.4		9.2		13.0		12.8		12.7	
Ministry of Fisheries	4.6		4.1		7.6		7.5		7.5	
Ministry of Tourism	7.7		6.6		10.5		10.5		10.4	
Tonga Volcanic Eruption & Tsunami		0.4		0.3						
Tonga Fish Pathways Project-IDA		6.6		6.5		4.1				
Economic Development under MAFF&Fisheries		3.6		6.2		6.2		4.3		3.8
Support to Lulutai(Air Fiji)		0.8		2.0						
National Museum of Tonga(Saudi Arabia)		1.0								
Training &Workshop		1.8		1.8						
Tourism Project & Accomodation								18.5		23.5
Tonga Australia Support Program		0.5		0.3						
SET Project CSU		1.1								
Tonga Rural Innovation Project - Phase II		0.7								
GGP & NPGA project		2.2		1.7		3.2		3.2		3.2
Economic Development Support - DFAT						6.5				
Agricultural Census						1.9				
Other		5.1		1.2		1.5		1.5		1.2
Sub-Total	**33.7**	**26.4**	**29.8**	**20.0**	**38.4**	**23.4**	**41.5**	**27.5**	**37.8**	**31.7**
TOTAL	**60.1**		**49.8**		**61.8**		**69.0**		**69.5**	

Source: Ministry of Finance (MOF)

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

The Tongan government, under the GPA 8 initiative, is actively investing in infrastructure upgrades to improve the nation's resilience against natural disasters and enhance connectivity both domestically and internationally. Prioritizing efficient land transport systems aid in facilitates timely evacuations during crisis. Concurrently, improvements in marine infrastructure aim to invigorate trade activities and bolster connections within Tonga and beyond its borders, while the emphasis on air transport underscores its pivotal role in facilitating tourism, trade, emergency responses, and public transportation.

[12] Please refer to the Government Priority Agenda booklet (Annex III)

GPA 8 Review of Performance FY 2024

The National Infrastructure Investment Plan II (NIIP II) was reviewed to reflect the infrastructure priorities following the HTHH volcanic eruption. For instance, the prioritisation of the recovery HTHH housing reconstruction**.** Specific policies such as the **Infrastructure Policy, Air Transport Policy, Tonga Housing Recovery Policy, Land Transport Division Policy**, and initiatives like **Building Back Better (BBB) and the Emergency Act** collectively contribute to Tonga's sustainable development and disaster preparedness efforts.

The progress of programs and activities being implemented under GPA 8 has been stalled because of the impacts of the pandemic and the HTHH volcanic eruption. However, the economy has proven to be resilient in terms of quick recovery response and effort, reflecting by the recent assessment of the country's economic performance. The GDP outlook for the medium term is positive, driven by the planned implementation of large infrastructure development projects that are ongoing and prioritize under this GPA.

A total allocation of $147.2m in FY 2024 was made towards efforts to achieve quality infrastructures, of which $114.7m or 77.9 percent is estimated to be utilized by the end of the financial year. This is evident by the achievement of universal access to electricity with 99 percent electrification rate in September 2023 and 45km of roads under the periodic and routine maintenance road programs led by the Ministry of Infrastructure, are on track. Outline below are the key highlights of GPA 8.

a) Updates on National Infrastructure Investment Plan (NIIP-3) 2030:

i). Roads:

- To enhance resilience to climate change in Tonga's transportation infrastructure, the Tonga Climate Resilient Transport Project (TCRTP) has enhanced investment in land transportation systems. The Government's recurrent budget allocation for road maintenance is $17.2m, inclusive of all related operational and staffing costs.
- Fanga'uta lagoon bridge, estimated cost of design scope 1 is valued at $122.0m, scope 2 is valued at $110.0m, and scope 3 is valued at $102.0m. The initial scope of these tasks has yet to be determined. The ADB-funded project is currently undergoing the bidding process.
- The preparation for the operationalization of the Road Maintenance Fund (RMF) under the Roads Act 2020.

ii). Maritime:

- *Outer Islands Wharves and Jetties:* the government continues to support the construction of Jetties for the outer islands of Vava'u and Ha'apai, including Nomuka, Faleloa, and 'Uiha. The Grant Agreement is expected to sign by March or early April 2024.
- Upgrade of the Port including the: Upgrades of the Queen Salote Wharf with the aim to strengthen the security and resilience of the port and the cargo handling facilities.
- *Nuku'alofa Port Upgrade Project:* jointly funded by an ADB-funded project with US$80.0m, the Government of Australia ($20.0m), and the Government of Tonga (US$5.0m). The project aims to modernize and expand the existing Queen Salote Wharf to accommodate the increasing number of larger cargo vessels visiting Nuku'alofa port. The expected completion date for this project is Q2 of 2025.

iii). Aviation:

- To ensure the reliability, safety, and affordability of air transport services, the World Bank through the TCRTP project upgraded (Resurfacing) the Ha'apai Airport Runway, which was completed in August 2023. In addition, the maintenance of the Kaufana Airport is now being planned.
- Lulutai Airlines Ltd, the sole domestic operator, has purchased the Twin Otter plane (US$6.3m), to continue providing services to the outer islands. The airline plans to increase flight frequency to Vava'u and Ha'apai in order to improve connectivity to the outer islands.

iv). Improvement to other public infrastructure:

- Ongoing implementation of Energy projects guided by "The Energy Roadmap PLUS (TERM Plus) 2021 – 2035".
- Urban Development include Integrated Urban Resilient Sector Project, launched in 2019. The ongoing initiative aims to enhance living conditions in Nuku'alofa, improve resilience to natural disasters and climate change impacts (US$21.3m), funded by ADB and will be completed in March 2026.
- Nuku'alofa Network Upgrade Project 5 advances toward completion with NZ$91.2m, an investment from ADB under PREIF;

b) HTHH Volcanic Eruption and Tsunami Recovery Project Progress

- Group 1 of NIIP 3 has five HTHH-related initiatives. The progress of these initiatives is detailed in each GPA that they are aligned to, which are shown below.
    - New international secondary internet cable linking Vava'u and Ha'apai (refer to GPA 6 for detail).
    - Power network relocation, extension, connection to the HTHH villages (refer to GPA 6 for detail).
    - Water Supply for HTHH damaged and relocated villages (Tongatapu Ha'apai,Eua) (refer to GPA 6 for detail).
    - Water Supply upgrade (post HTHH) Hihifo, Holopeka, Pangai.
    - Renovation Community Evacuation Centres TT-post HTHH (refer to GPA 1 for detail).

c) Non-Project Grant Aid (NPGA)

- The Government of Japan's Non-Project Grant Aid (NPGA) drives waste segregation and recycling in Tonga.

Priority activities FY 2025 - 2027 for GPA 8 [Forward looking

The policies stated above, and its targets, will continue to guide the implementation of the medium term budget towards improving the quality, access and efficiency of land marine and air transport.

As such, a total allocation of $168.2m is estimated in FY 2025 for implementation efforts under GPA 8, which is an increase by $21.0m from the current FY 2024 to continue existing programs with additional focus on the priorities tabulated in ***Table 12*** below in FY 2025 – 2027.

These are a list of infrastructure priorities, which includes the operationalization of the RMF as revolving funds at $22.9m in FY 2025 with expenses and revenues in line with the RMF setting under the Roads Act 2020, the construction of the new Parliament building, upgrading of the royal

tombs at Mala'ekula, and upgrading works to the Fua'amotu International Airport. This also includes building a new wharf bridge in 'Eua, the Hawaiki cable project, completing the Tonga Climate Resilience Transport Sector (TCRTP) project, the Fanga'uta Lagoon Bridge, THS Sports Complex, National Museum of Tonga., TFES Office Headquarters and the expansion of flights from Lulutai Airlines by acquiring another Twin Otter airline.

GPA 8 BUDGET FY 2024-2027

Table 12: Detailed Budget FY 2024 - 2027 Allocation for GPA 8 ($m)

Budget Allocation for GPA 8: Quality & Accessible Public Infrastructure	2023/24 Original Estimate		2023/24 Revised Estimate		2024/25 Estimate		2025/26 Estimate		2026/27 Estimate	
	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development
Ministry of Infrastructure	20.0		18.5		15.1		15.3		15.3	
Tonga Climate Resilience Transport Project		36.9		27.1		14.9		13.0		12.0
Parliament New Building		2.0		1.5		10.0		40.0		10.0
Nukualofa Ports Upgrade- Queen Salote Wharf		48.8		37.6		43.8		3.3		
Fanga'uta Lagoon Crossing Bridge		0.3						5.0		20.0
Tonga Volcanic Eruption & Tsunami		8.0		0.5						
Jetties and Road Maintenance				2.5		6.4				
Upgrading Royal Tombs(Mala'ekula)				0.5		15.0		3.5		
New Fua'amotu International Airport						5.0		30.0		20.0
THS Sport Complex		31.0		23.9		25.0				
National Museum of Tonga (Saudi Arabia)				0.6		6.7		5.1		
Falemaka Renovation(old PMO building)						1.0				
'Eua Wharf Bridge reconstruction						1.4				
TFES Office Headquarters								10.0		9.0
Ha'apai Airport Runway Lights (TASP)				1.8						
Resurface Taufa'ahau Rd						0.1		5.0		10.0
Road Maintenance Fund - revolving funds						22.9		17.0		17.0
Slipway Construction						0.5		5.0		5.0
Other		0.2		0.2		0.4				0.1
Sub-Total	**20.0**	**127.2**	**18.5**	**96.2**	**15.1**	**153.1**	**15.3**	**136.9**	**15.3**	**103.1**
TOTAL	**147.2**		**114.7**		**168.2**		**152.2**		**118.4**	

Source: Ministry of Finance (MOF)

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

Under GPA 9, the government is actively enhancing bilateral engagement with accredited partner countries and optimizing cooperation with regional and international inter-governmental institutions. This effort includes strengthening partnerships with development partners, private sector entities, and non-governmental actors, all aimed at fostering sound economic investment to sustain progressive, equitable, and vibrant socio-economic growth.

GPA 9 Review of Performance FY 2024

Through GPA 9, the Government continues to involve in robust collaboration with key stakeholders such as the governments of Australia, New Zealand, the United Kingdom, Japan, China, the European Union, as well as various regional organizations, UN agencies, and financial institutions including the IMF, WB, AIIB, and ADB. These partnerships are guided by strategic frameworks such as **the Joint Policy Matrix (JPRM), Tonga Tourism Sector Roadmap (TTSR), Joint Action Plan 2 (JNAP 2) target 18, MFA Tonga Economic Diplomacy Strategy, Draft UN-CIP (Country Implementation Plan), Foreign Aid Policy, Aid Policy,** and **Tonga Foreign Investment Ac**t, ensuring coordinated and effective cooperation towards common goals.

In FY 2024, a total allocation of $17.0m was dedicated to strengthening engagement and partnerships with regional and international institutions. However, by the end of the financial

year, an estimated $20.3m, representing a 19.4 percent increase from the original allocation, is projected to be utilized on the following key developments:

- **Health:**
  - The Chinese Embassy and the Minister of Health signed a protocol between the Government of the People's Republic of China and the Government of Tonga concerning the dispatching the Chinese medical team to work in Tonga.
  - Tonga Minister of Health and New Zealand's Minister held a bilateral meeting at the New Zealand chancery office, emphasising both countries' dedication to strengthening health outcomes for their populations.

  - *Infrastructure:*
    - New Zealand's Foreign Minister and Health Minister announced NZ's support for Tonga's health sector by contributing NZ$2.4m to the construction of a new Pharmaceutical & Medical Facility in Veitongo.
    - The Asian Development Bank (ADB) and the Ministry of Internal Affairs have started a new project worth US$16.2m to construct three community-based aged care centres in Tongatapu and one in Vava'u. This project, known as the Tonga Integrated Aged Care Project, aims to enhance the provision of safe and high-quality integrated health care services for elderly individuals and their caregivers.

  - *Training:*
    - New opportunity for a pathology workforce training for the medical officer at the Ministry of Health, 2 medical officers are currently joining the program at the Australia University.

- **Education:**
  - Chinese Embassy attended the Tonga National University staff retreat planning day where he delivered a keynote speech emphasizing the importance of cooperation and exchanges in education to strengthen ties between China and Tonga.
  - The 'Ahopanilolo Technical Institute received a new classroom funded by a US$72,000 grant from the Japanese government's Grant Assistance for Grassroots Human Security Project (GGP). The project follows Japan's previous support to the institute in 2012 when they assisted with the construction of a laundry building.
  - The enrolment at Popua Middle School has seen a significant increase, more than doubling over the past three years. The school will receive a new classroom, funded by a grant from Japan, because of this growth.

Disaster management:
  - The NDRMO, in collaboration with UN OCHA and UNDP, concluded a three-day IDA training workshop in Tongatapu from October 24 to 26, 2023, with success. A training program was organised to instruct more than a hundred participants from diverse sectors on how to perform efficient Damage Assessment (IDA) in the aftermath of a disaster.
  - A visit to Lifuka Ha'apai was conducted by the National Disaster Risk Management Office (NDRMO), the New Zealand Defence Force Headquarters Joint Force, and His

Majesty's Armed Forces in collaboration to make preparations for Exercise Tropic Twilight, which is scheduled to occur in May 2024.

- The United Nations Special Representative to the Secretary-General for Disaster Risk Reduction (SRSG UNDRR) visited Tonga from October 20 to 24, 2023, to observe World Tsunami Awareness Day and assess disaster risk reduction efforts in the Pacific region. During the visit, a forum organized by the Australia High Commission in Tonga brought together development partners to discuss disaster and climate risk reduction efforts. To strengthen partnership in DRR space, Australia has pledged AU$100.0m to support the Pacific region in addressing the climate crisis through the Pacific Resilience Facility, a community resilience financing mechanism led by the Pacific.
- Tonga NDRMO senior officers participated in the Pacific Tool for Resilience project - Phase 2 (PARTneR-2) Technical Workshop took place in Christchurch, NZ from February 12-16, 2024. The workshop aim was to strengthen Pacific Island countries' resilience to climate change impacts through informed decision-making.
- Exercise Longreach 2023, an ongoing partnership among the Australian Defence Force, the National Disaster Risk Management Office, His Majesty's Armed Forces, and all first responder in Tonga, was attended by over seventy personnel.
- The Tonga Red Cross Society (TRCS) offered financial support to 632 families who suffered from the 2022 HTHH tsunami in three different regions of Tonga. The aid comes as cash amounting to half a million dollars and was managed by the TDB for distribution.

- **Economic Development:**
  - *International Trade:*
    - Australia supported the PACER Plus Implementation Unit's workshop in Tonga, focusing on enhancing the country's capacity in foreign direct investment. The workshop promoted collaboration between public and private sectors to foster a conducive environment for a prosperous and resilient future.
    - Nishi Trading in partnership with the Market Development Facility (MDF) supported by the Australia and New Zealand governments, and Air New Zealand, trialling the transportation of agricultural exports from Tonga to New Zealand using air freight. The goal of this project is to address disruptions caused by COVID-19 and volcanic eruption that resulted in delays and spoilage of perishable goods during sea freight shipments.
  - *Digital economy:*
    - Tongan government and UN Capital Development Fund launched the Inclusive Digital Economy Scorecard for Tonga (IDES). The IDES will help Tonga work toward an inclusive digital economy, with Australia continuing to support the development agenda for a prosperous and stable Tonga.
  - *Community development projects:*
    - The Chinese embassy staff visited Vava'u (outer islands) to participate in the handover of various ceremonies of community livelihood projects, including the provision of assistance such as fishing boats engines, sewing machines, greenhouses, and aquaculture facilities.

- **Fisheries:**
  - The Chinese embassy supported the fishing community in the Tonga's 10th Constituency by providing them with fishing boats. They expressed their satisfaction in helping the Tongan people improve their quality of life and hoped that the fishing boats would contribute to sustainable development in the Talafo'ou community.

- **Defence & security:**
  - The Chinese embassy has provided the Tonga Police with special forensic examination equipment and a patrol car to enhance their operational effectiveness.
  - Tonga Police officers complete a two-week Close Personal Protecting training program conducted by four police trainers from the Samoan Police, Prisons & Corrections Services to enhance their skills in safeguarding visiting foreign dignitaries and VIP guests, showcasing collaboration between Tonga and its Pacific Islands neighbours.
  - The Australian Federal Police (AFP) provided Tonga Police with over 100 VHF digital portable transceivers as part of the Tonga-Australia Policing Partnership (TAPP) to enhance the radio communication network capabilities of the Tonga Police.

- **Agriculture:**
  - The Chinese embassy, in partnership with coconut specialists from the China-Aid Agro-Tech Cooperation and the MAFF, offers educational programs to enhance coconut farming in Tonga. These training initiatives aim to increase production and enhance the economic conditions of local farmers.
  - Through the Food and Agricultural Organization (FAO) Technical Cooperation Programme (TCP), they continue to assist on Agri-food system transformation with climate smart agriculture practices and better managed coastal fisheries resources.

- **Public utilities:**
  - *Water Supply:*
    - The Australian Water Association and Unity water, with support from the Australian Water Partnership, collaborated with the Tonga Water Board on climate resilience projects in Tonga. These projects focused on solar asset management, disaster resilience, and operator training.
    - Japan Ambassador to Tonga formally presented the upgraded water supply system to the village of Houma. With the support of Japan's GGP assistance, the project included the installation of two electric water pumps and the replacement of 1.8km of the main water pipes.
    - The villages of Tokomololo and Navutoka will benefit from the grant funding from the Government of Japan to upgrades their water supply system, improving the accessibility and quality of water for residents in these areas.
  - *Electricity generation & distribution:*
    - Australian government gifted Tonga Power Ltd with a new generator to enhance Tonga Power's capacity, ensuring a reliable power supply for Tongatapu. The generator plays a crucial role in addressing recent power outages and supports Tonga's energy transition towards clean energy goals for a sustainable future.

- **Environment:**
  - The Chinese government allocated $0.2m to support the Tree Planting Initiative of Tonga's Legislative Assembly. A ceremonial tree planting event was held at the Fale Alea compound to commemorate this significant endeavor.

- **Gender:**
  - Australia supports Tonga's efforts in addressing violence against women and children by funding essential services, enhancing police response, and supporting the Ministry of Internal Affairs' Women and Gender Equality Division. In Vava'u, new cars were handed over to Tonga Police's Domestic Violence Unit and WCCC to improve community care.
  - The Chinese embassy staff held a meeting with the UN Women Pacific Country Representative, to discuss potential ways to increase the involvement of Tongan women in the nation's economy.
- **Postal services:**
  - Australia Post donated postal equipment, including electric delivery vehicles and motorbikes, to Tonga Post. Other items donated included wet weather gear, IT, and letter sorting equipment. Australia Post will also provide training for Tonga post as part of the Pacific Postal Development Partnership.

- **Fire & Emergency services:**
  - South Australia handed over two fire trucks and equipment to Tonga Fire & Emergency Servies, continuing a partnership that began in 2004. South Australia has been a significant supporter of Tonga's firefighting capabilities, with 90.0 percent of Tonga's fire truck fleet donated by South Australia.

- **Deep sea mining:**
  - The Prime Minister of Tonga and the President of the Republic of Nauru held a bilateral meeting to discuss various topics, including their shared interest in deep sea mining.

- **Aviation:**
  - An ICAO Liaison officer for the Pacific Small Island Development States (PSIDS) visited Tonga to enhance communication between Tonga and ICAO. The focus was on aligning aviation sector priorities, discussing global objectives, planning upcoming projects like the SAR project and GSI training.

- **Diplomacy:**
  - Secretary Blinken's visit to Tonga marks a significant milestone in U.S-Tonga relations, with the resumption of the Peace Corps mission in the country and the establishment of the US embassy in Tonga.
  - The United Kingdom Minister of State for Indo-Pacific visits Tonga for her inaugural ministerial visit since the re-opening of the British High Commission in 2020. During her visit, she met with Tonga's Acting Prime Minister and Minister for Foreign Affairs to discuss investment opportunities and support for climate challenges.

Priority activities FY 2025 for GPA 9 [Forward looking]

The policies stated above, and its targets will continue to guide the implementation of the medium-term budget to strengthen bilateral engagement, focusing on sound investment to sustain progressive equitable and vibrant socio-economic growth.

A total allocation of $22.7m is estimated in FY 2025 for the implementation efforts under GPA 9. This is $5.7m higher than the current FY 2024, attributing to the following key priorities for FY 2025 that include the:

- Hosting of the Pacific Island Leaders Forum.
- Amendment of the Tonga Diplomatic Policy.
- Tonga's overseas missions' maintenance/ renovation, starting with maintenance of properties in San Francisco and New York in FY 2025 ($0.2m).
- Completion of constructing the old Prime Minister's Office building will be completed in FY 2024 to cater for the relocation of the Foreign Affairs office in FY 2025.
- Continues to support developments of Tonga's Migration and Sustainability Development Policy (MDSP) initiatives with further technical assistance and Government engagements with relevant Ministries and related stakeholders.

GPA 9 BUDGET FY 2024-2025

Table 13: Detailed Budget FY 2024 - 2027 Allocation for GPA 9 ($m)

Budget Allocation for GPA 9: Strengthen Partnerships	2023/24				2024/25		2025/26		2026/27	
	Original Estimate		Revised Estimate		Estimate		Estimate		Estimate	
	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development
Ministry of Foreign Affairs	14.5		13.8		14.3		14.4		14.4	
Ministry of Finance - Aid Manager	0.5		0.5		0.5		0.5		0.5	
Bilateral & Multilateral Strengthening Partnership		2.0		6.0		1.3		1.1		1.1
Pacific Islands Forum Leader's Meeting					1.2	4.9				
Immigration Support in the Pacific						0.5		0.6		0.6
Sub-Total	**15.0**	**2.0**	**14.3**	**6.0**	**16.0**	**6.7**	**14.9**	**1.7**	**14.9**	**1.7**
TOTAL	**17.0**		**20.3**		**22.7**		**16.6**		**16.6**	

Source: Ministry of Finance (MOF)

5. MACROECONOMIC STRATEGY, PERFORMANCE AND OUTLOOK

The macroeconomic environment has stabilized after the double shock events in 2022. Government interventions, bolstered by the support from the development partners and remittances, have persistently upheld the economy and safeguarded vulnerable segments of the society. Ongoing fiscal policies support economic recovery and growth, despite inflationary challenges. The rising impact of domestic inflation since September 2022 is a notable concern.

Prior to HTHH and COVID-19, the macroeconomic outlook for Tonga was expected to grow at an average of 3.0 percent in the medium term:

- The growth forecast to an average of 2.8 percent in the medium-term FY 2025 – FY 2027. This is driven by recovery reconstructions and implementation of large infrastructure projects; while with the long-term growth of 3.0 to 4.0 percent, this is driven by an increase in major investment.
- The annual average inflation is expected to slow down, falling between 4.3 percent and 6.7 percent by the end of 2024. At the same time, the headline inflation is forecasted to be lower than the 5.0 percent target by the end of 2024, through managing the increasing domestic inflation. On the outlook, it is expected that headline inflation will stay below the 5.0 percent reference rate of National Reserve Bank of Tonga.

- The aim is to maintain annual average fiscal surplus, as a percentage of GDP, at 1.0 to 2.0 percent across the FY 2025-FY 2027, while continuing the loan repayment commitment to the EXIM-Bank of China of $42.0m in FY 2025.
- The proportion of the total debt repayment as a percentage of domestic revenue is declining in the medium term compared to estimate FY 2024, hence providing fiscal space for the government to increase investment and meeting economic growth objectives.
- The work on strengthening the revenue collection administration and enforcement will continue to help the dual objectives of economic growth and debt repayment. The review of tax exemptions in certain areas will continue in FY 2025. Hence, domestic revenue, as a percentage of GDP, is projected to increases gradually in the medium term, as depicted in **Figure 2** below.
- The goal to maintain fiscal consolidation through adhering to the Public Finance Management (PFM) three objectives of: (i). Aggregate fiscal discipline, (ii) Allocative efficiency and (iii) Operational efficiency, remain vital in checking the fiscal health of the country in the medium to long-term.
- The respective key economic indicators trend is depicted in each graph below:

Figure 2: Key Economic and Fiscal Indicators



Note: The Tonga Statistics Department has recently released its National Account Statistics 2021/2022 with actual growths of 3.36 percent (FY2017), 0.87percent (FY 2018), -0.23 percent (FY2019), 1.31 percent (FY2020), -1.26 percent (FY2021), 0.05 percent (FY2022)., the relevant updates will be incorporated in the next review of the macro-economic framework in Jully 2024.

Source: Ministry of Finance (MOF)

Notes: Fiscal Anchors rules:

1. *Domestic Revenue to GDP (percent) - that the revenue collection is expected to reach the target of at least 22 percent and above of GDP.*
2. *Wage Bill (percent) - that the wage bill will not exceed the threshold (less than 53 percent of Domestic Revenue or more than 45 percent of the Operating Expenses).*
3. *Fiscal Position to GDP (percent) - that the fiscal position expected to range between +1.0 percent and -1.0 percent of GDP.*
4. *External Debt to GDP (percent) - that the debt level be maintained below target (at least 50 percent of GDP).*

5.1 Economic Performance

The economic and financial indicators summarise the current economic situation.

• *Economic growth:* As depicted in ***Table 14*** below, the economic outlook for Tonga in FY 2024 appears promising, with a projected growth rate of 2.9percent. This positive trajectory is attributed to improve economic activities across all sectors.

In the *primary sector (17.5 percent of GDP)*, encompassing agriculture, forestry and fisheries, anticipated a negative growth of -0.8 percent. This stems from expected decreases in both the volume of agricultural and fisheries exports, particularly squash, watermelons, coconuts, tuna and seaweed.

The *industrial sector (13.9 percent of GDP)*, is expected to see a 6.2 percent growth in 2024, fuelled by ongoing reconstruction efforts and progress in implementation of development projects.

The *service sector (50.3 percent of GDP)* is forecasted to grow by 4.1 percent, led by pick up in tourism activities, wholesale, and retail sectors. This positive trend is expected to persist, supported by increasing tourist arrivals, strong remittances, and improved investments in the private sector.

The remaining composition includes "*Other"* factors (tax and subsidies on product) which contributed at 18.3 percent of GDP.

Table 14:GDP sectors

Real GDP growth (%)	Actual (TSD)					MOF Projection					
	2016/17	2017/18	2018/19	2019/20r	2020/21p	2021/22f	2022/23f	2023/24f	2024/25f	2025/26f	2026/27f
Agriculture, Forestry, Fisheries	**-2.5**	**0.4**	**3.6**	**3.2**	**0.1**	**1.5**	**0.2**	**-0.8**	**0.4**	**1.3**	**1.6**
Construction	**18.0**	**-32.4**	**16.2**	**-13.9**	**16.6**	**-11.5**	**-1.4**	**13.6**	**12.7**	**9.1**	**4.0**
Secondary (excl. construction)	**3.8**	**-0.3**	**-1.9**	**4.1**	**-7.2**	**-0.2**	**1.0**	**1.7**	**2.7**	**3.4**	**4.4**
Services Sector	**1.8**	**3.3**	**0.8**	**-0.3**	**-7.6**	**-2.5**	**4.7**	**4.1**	**3.4**	**3.0**	**3.3**
wholesale and retail trade	*2.5*	*6.3*	*0.4*	*2.8*	*-13.1*	*-5.0*	*11.0*	*3.4*	*3.0*	*3.1*	*2.5*
accomodation/food services (Tourism industry)	*8.6*	*7.5*	*-3.3*	*-27.4*	*-68.1*	*-93.5*	*1435.4*	*115.8*	*35.0*	*12.7*	*15.0*
finance and insurance service activities	*-4.3*	*4.5*	*0.1*	*5.0*	*-5.0*	*-3.9*	*-1.0*	*1.7*	*1.8*	*1.3*	*1.1*
public administration and defense	*-1.5*	*2.8*	*4.0*	*1.8*	*1.9*	*0.5*	*1.0*	*1.2*	*1.3*	*1.0*	*2.3*
others	*3.1*	*1.5*	*0.6*	*-0.1*	*-3.8*	*2.7*	*2.4*	*2.3*	*2.4*	*2.9*	*3.5*
Overall GDP	**3.3**	**0.2**	**0.7**	**0.5**	**-2.7**	**-0.6**	**2.8**	**2.9**	**2.9**	**2.7**	**2.7**

r*: revised,* ***p*** *:provisional, and* ***f*** *:forecast estimate*

Note: The Tonga Statistics Department has recently released its National Account Statistics 2021/2022 with actual growths of 3.36 percent (FY2017), 0.87percent (FY 2018), -0.23 percent (FY2019), 1.31 percent (FY2020), -1.26 percent (FY2021), 0.05 percent (FY2022)., the relevant updates will be incorporated in the next review of the macro-economic framework in Jully 2024.

Source: Tonga Statistics Department, MOF

The projected economic growth for FY 2025 is 2.9 percent, signalling an ongoing recovery in all key sectors of the economy. This includes the significant pick-up of economic activities in the tourism sector, compared to the negative growth performance during Covid-19. This is coupled with ongoing and forthcoming development projects, has positively impacted growth in the construction and agricultural sectors, thus contributing to overall economic expansion. Imports are expected to follow a positive trajectory, supported by remittances and labour mobility schemes, while wholesale and retail sectors expect sustained growth, reflecting robust domestic demand.

In the medium term (FY 2025–FY 2027), Tonga's economic prospects appear favourable, with a projected average growth rate of 2.8 percent. This growth is driven by the completion of a recovery reconstructions, implementation of large infrastructure development projects, and increase investment initiatives.

- In terms of *economic management*, the government will continue to focus implementation on key priority areas and measures to restore and bolster economic resilience, promote sustainable development, and enhance economic growth and stability. These measures and areas encompass the following:
    - *Infrastructure Development*: The government remains steadfast in its commitment to invest in critical infrastructure, including the Vava'u hospital, Safer School project, roads, airports, bridges, jetties, and ports, to strengthen infrastructure development and spur economic growth. Notable ongoing development initiatives under the energy sector include projects such as the Nuku'alofa Network Upgrade Project (NNUP), Pacific Resilience Energy Project (PREP), Tonga Renewable Energy Project (TREP), Wind Power Project, and the Floating Solar Project (ADF14). There are ongoing efforts towards developing the telecommunication and digital infrastructure, such as implementing Hawaiki Project, E-Government and the E-Health Projects. The government has also prioritized the Government housing reconstruction program and the ongoing implementation of Queen Salote Wharf and the Tonga High School sport complex, the Queen Salote Nursing School building and the planned Fanga'uta evacuation bridge project.

    - *Encouraging foreign investment*: The government continues to prioritise activities to provide an enabling environment for attracting foreign direct investment, encompassing tax incentives and the simplification of business processes and procedures.

    - *Diversifying the economy*: The government is actively pursuing economic diversification by promoting industries such as fisheries and manufacturing, besides agriculture and tourism. As such, a continuous budget allocation of $9.1m in FY 2025 has been earmarked to support Public-Private Partnerships initiatives, under the key economic sectors, namely agriculture, fisheries, tourism, and manufacturing. These budget allocations have been allocated to each respective MDAs to manage and assist with implementing each PPP initiative under their respective sector.

    - *Strengthening financial institutions*: The National Reserve Bank of Tonga is partnering with commercial banks to fortify the country's financial institutions, aiming to enhance access to credit and financial services, positively influencing medium-term growth. Concurrently, the National Reserve Bank of Tonga is exploring strategies to address excess liquidity in the financial system to maintain price stability. In addition, the ADB and the EU are co-financing the project for the MSMEs with the aim to ease off the burden of accessing finance by this group of businesses by providing capital to the accredited agent (Bank) who will be facilitate and monitor this project. This assistance is channelling through the Tonga Development Bank (TDB).

- *Fiscal Policy*: The government's fiscal policy includes fiscal discipline, revenue enhancement, expenditure prioritization, and debt management, aiming to balance economic growth with fiscal stability. Efforts focus on diversifying revenue sources, improving tax compliance, reviewing exemptions, and prioritizing spending in critical sectors. The government is working towards improving its Medium-Term Fiscal Framework to promote sustainability, stability, transparency, and accountability in government finances, ensuring long-term economic development through better management of risks, debt levels, and obligations.
- *Public Financial Management:* The Cabinet had endorsed the Public Financial Management Bill 2023 (Amendment) to help executes the Ministry of Finance's financial role as the steward of

public fund. The government had enacted fiscal measures to enhance financial management. In terms of expenditure, the government will continue to prioritize prudence by focusing on three (3) key objectives of Public Financial Management as mentioned above.

- At present, the two main activities performed on the PFM front include, (i) Modernization of the PFM legislations, including the legislative review of the principal Act (PFM Act 2002) for public funds and is now ready to be table for Parliament deliberation and approval; (ii) Formulation of the PFM Reform Roadmap and Rolling Action Plan 2024-2029 include 136 planned actions of which about 60.0 percent of these have been implemented and the remaining 40.0 percent is ongoing. These actions focused on the areas that need improvement as recommended under the Public Expenditure Financial Assessment (PEFA, 2020).

  - *Human Capital Development:* Human capital development stands as the cornerstone for fostering sustainable economic growth and prosperity in Tonga. Efforts to enhance human capital encompass various initiatives aimed at improving education, healthcare, skills development, and workforce productivity. *Investment in education* includes measures to strengthen the quality of schooling, increase and improve access to education at all levels, and promote life-long learning opportunities. On the other hand, the initiatives to *enhance healthcare* focuses on improving healthcare infrastructure, easy access and providing quality and efficient healthcare services, improving health standards by investing in public health facilities and clinics, and health promotional programs to address key health challenges.

    Skills development programs aim to equip individuals with the necessary skills and competencies to meet the demands of a rapidly evolving labour market, include the arising issue of labour shortage in key sectors of the domestic economy. By prioritizing human capital development, Tonga seeks to cultivate a skilled, healthy, and *productive workforce* capable of driving innovation, entrepreneurship, and economic diversification. Ultimately, investing in human capital is essential for fostering long-term economic resilience, reducing poverty, promote inclusive growth, and achieving sustainable development goals.

- *Enhancing social security and equity:* In its ongoing commitment to fostering equity and equality throughout Tonga, the government is prioritizing enhancements to social security and educational access across all sectors of the society. This is through establishing of a new policy change, aiming to strengthen the policies to support social safety net, effective in FY 2025. These include the:
  - grants to non-government schools, particularly for secondary and TVET institutions, is now proposed to increase from $700 to $770 per student and from $1,200 to $1,320 per student, respectively.
  - monthly stipends for elderly citizens to increase in FY 2025 demonstrate a dedication to improving their well-being and security. This is further elaborate in *Section 5.4*.
  - free education up to Form 5 in government schools, aiming to ensure and guaranteeing that all children have fair access to learning opportunities for all school aged children and later reduce the number of student dropouts.
  - $0.1m grant allocated to Hango School ('Eua), aiming to support the educational development particularly on the field of agriculture as one of the key economic sector.

- *Sectoral Policies:* The government aims to strengthen development of respective sectoral development policies, as considered critical to foster diversified and resilient economic growth. These policies involve a range of initiatives tailored to promote growth and competitiveness across key sectors such as agriculture, fisheries, tourism, and services. Efforts are directed

towards enhancing the productivity, efficiency, and sustainability of these sectors through targeted interventions, including infrastructure development, technology adoption, skills enhancement, and market access facilitation. Sector-specific policies prioritize value chain development, product diversification, and market integration to unlock the full potential of each sector and capitalize on comparative advantages. By aligning sector development policies with broader economic objectives, the government aims to reduce dependency on foreign aid in the long run, aiming to foster economic resilience and long-term prosperity. Moreover, these policies contribute to achieving sustainable development goals and inclusive economic growth.

- *Sustainable Development:* The government aims to enhance its commitment to balancing economic growth with environmental protection, social equity, and long-term viability. Tonga's approach to sustainable development integrates resilient into economic, social, and environmental considerations, aiming to achieve holistic and inclusive growth. Key priorities include promoting renewable energy, enhancing resource efficiency, preserving biodiversity, and addressing climate change impacts. For instance, Government have allocated $0.2m under the MEIDECC to cater for the maintenance of energy products such as battery and solar panels among others. Efforts to promote sustainable development prioritize social inclusion, poverty reduction, and gender equality, ensuring that economic benefits are equitably distributed across society. Government continues to emphasize the importance of strengthening institutional capacity, promoting good governance, and fostering partnerships with stakeholders to drive sustainable development initiatives going forward. By integrating sustainable development principles into economic management policies and practices, Tonga seeks to build a resilient and prosperous future for the current and future generations.

- *External sector:* Tonga's sustained current account deficit in the external sector shows ongoing import payments exceeding earnings from exports, foreign investments, and services. While increased remittances and additional foreign aid can partially alleviate the deficit, complete elimination may not be feasible in the medium-term with Tonga's small economies of scale. Government continued to focus on *improving exports* and promoting *import substitution* is crucial with greater investment in the economic sectors beginning in FY 2025 onwards. This approach aims to reduce Tonga's reliance on foreign goods and services, shrinking the trade deficit and enhancing the country's balance of payments. Implementation of such strategies holds the potential to foster long-term economic growth and stability.

- *Monetary Policy:* The National Reserve Bank of Tonga (NRBT), as per its statutory objectives, is tasked with preserving both internal and external monetary stability. This includes promoting financial stability and maintaining an effective financial system. Coordinating monetary policy with government fiscal policies is critical to uphold macroeconomic stability by keeping inflation below the 5.0 percent reference rate, with closer collaboration with the government on targeted reforms to alleviate Tonga's high-cost structure. Given the current level of foreign reserves, and financial stability maintained to date, the National Reserve Bank of Tonga will focus on supporting the Government's fiscal policy by reducing inflation and maintaining financial stability.

  The National Reserve Bank of Tonga biannual Monetary Policy Statement will also focus on the implementation of relevant measures to ensure financial stability and fostering access to financing for underserved and climate change-vulnerable sectors.

  - The National Reserve Bank of Tonga will continue to closely monitor both global and domestic economic developments and align its monetary policy as needed. They include:
    - promote price stability to support the economic welfare of consumers and

businesses (e.g. protecting their purchasing power);
- Monitor the level of foreign exchange reserves to ensure the Kingdom can meet its foreign exchange needs e.g. pay for imports, Government's debt obligations
- use our pegged exchange rate to maintain stability of the value of our TOP Pa'anga in the foreign exchange market to contribute to manage imported inflation by influencing the TOP amount paid for imports (and other FX payments), and similarly the TOP amount received for remittances (and other FX receipts) sent from overseas.
- maintaining a sound banking system with adequate capital and ample liquidity to absorb any shock to the system, and
- strengthen the detection and countering of serious financial crimes and contribute to the national effort to combat illicit drugs. Specific supervision and regulatory reporting to counter fraud, corruption, AML and terrorism financing including strengthening capacity for reporting and aligning ancillary legislations (MTED Company and Business Registry, and AML/CFT Act Amendments.

- During the FY2025 budget period, collaborate with National Reserve Bank of Tonga to explore all available options to manage elevated domestic liquidity levels in support of macroeconomic policy objectives. This includes assessing the feasibility of establishing a new capital market to enhance local investment opportunities, reduce interest rate spreads, and address sectors underserved by the local banks. Additionally, the National Reserve Bank of Tonga will focus on correcting related market failures, such as improving the credit registry and consumer protection. Efforts will also be made to set more affordable interest rates for primary production sectors through additional concessional lending facilities and where feasible partial guarantee facilities, including those accessible for women and handicrafts, as mandated by the government.

- The NRBT will be requested to utilize its biannual monetary policy statements to evaluate both global and domestic economic developments and forecast future trends. This assessment will guide the formulation of monetary policy for the upcoming two six months during Budget 2025, ensuring that the monetary sector supports an enabling environment conducive to robust and sustainable economic growth over the medium to long term. This approach is integral to our budget strategy.

- Equally important, the National Reserve Bank of Tonga will continue to harmonize monetary policies to support Government's fiscal objectives. Additionally, NRBT also support economic growth through capital investment and mitigate the risks of debt distress. Going forward, the Government will pursue with expansionary fiscal measure focusing on scaling up investment on growth initiatives under key economic sectors as well as delivering on its key priority areas. The monetary policy is supportive of these initiatives with the aim to promote economic growth.

5.2 Medium-Term Fiscal Strategy

In the medium term, the aim is to maintain macroeconomic stability while closely monitoring fiscal programs. The fiscal policy will support the expansion of capital investments on growth initiatives in key economic sectors, managing loan repayment obligations, salary adjustments of 5.0 percent COLA, and the development and safety of vulnerable groups including the communities. The essential sectors comprising education, health, and infrastructure development programs will

continue as priorities. Despite the loan repayment commitment to the EXIM Bank in FY 2025 (estimated total of $42.0m), and the additional 5.0 percent COLA, the increase of revenue projection, complimented with the fiscal consolidation, is targeting a *balance budget* in FY 2025.

The three-year medium-term budget for FY 2025 – FY 2027 aligns with GPA2022 – 2025 and TSDF II, focusing on:

i. Driving sustainable growth by targeting an average growth rate of at least 3.0 percent from FY 2025 onwards through mobilizing more domestic investments and enhance the provision of feasible investment promotions and public-private partnerships (PPP). Higher growth will be achieved through increased PPP investments and targeted trade promotion in key sectors including agriculture, fisheries, tourism, and manufacturing.
ii. Rationalizing expenditure, prioritizing economic growth initiatives, ensuring quality services in education and health, combatting illicit drugs, and infrastructure development.
iii. Enhancing resilience to future natural disasters and economic crises, draws from the lessons learnt and recent experience of HTHH volcanic eruption and Covid pandemic.
iv. Fostering youth training and capacity building, alongside sports opportunities, to combat unemployment and labor shortage in key sectors.
v. Strengthening partnerships with all key stakeholders including the private sector, churches, local communities, donors and foreign investors through consultation and inclusive government policy responses.
vi. Providing affordable, quality transport infrastructure, public utilities, and social protection to foster economic growth and support the multi-dimensional poverty group (24.0 percent) besides the 3.0 percent in extreme poverty.
vii. Maintain prudent debt management practices to ensure manageable debt levels, to enable fulfilling Tonga's debt repayment obligations while investing in essential services such as healthcare, education, renewable energy, digital transformation, and accessible water supply.
viii. Incorporating green initiatives, through the adoption of environmentally responsible policies, to achieve a more sustainable and eco-friendly future. These efforts comprise of the development of aquaculture, expansion of fisheries facilities, and implementing circular economy practices aimed at promoting sustainable resource utilization. Further liaison with the NRBT to consider feasible options for mobilizing finance to support private households access to resources and the productive sectors to participate in the blue economy and sustainable and eco-friendly Tonga soon linking to above initiatives:
ix. Support the NRBT effort in managing inflation and fostering price stability to mitigate Tonga's elevated cost structure and reduce the unit cost of conducting business, addressing sectoral imbalances, in crucial areas like agriculture, fisheries, tourism and manufacturing.
x. Collaboration with NRBT to strengthen the prevention and detection of serious financial crimes, such as fraud, corruption, and terrorism financing through reporting, strengthening capacity for countering through implementation of the APG and risk analysis led by the Cabinet AML/CFT/CPF Committee.
xi. Implementing focused policies aimed at addressing wage inflation and addressing high cost of remittance.

This section will provide further details of the Government's fiscal policies and measures for the Budget FY 2025 – FY 2027.

Revenue Measures

The government is dedicated to preserving fiscal sustainability by enhancing domestic revenue collection through:

1. Continued revenue reform efforts, including the introduction of electronic sales registers to combat tax fraud and tax evasion, E-tax services for administrative modernization, ASYCUDA World System implementation, and the use of the Nutrients Profile model for food classification and health-related excise tax application.
2. Continual reviewing of certain tax exemptions, including specific sectors such as agriculture, tourism and those related to fuel, to ensure alignment with intended objectives. The intention is to gradually phase out tax exemptions over the medium term. A review of the exemption under the key economic sectors, starting with the tourism sector, had already been undertaken and to be followed by the reviews of the other sectors, i.e. Agriculture, Fisheries and Tonga Power Limited (TPL). *For additional information, please refer to* ***Annex I***.
3. Review government fees and charges, especially those that have not undergone review in the past five (5) years.

4. Strengthening revenue service administration by adopting the Electronic Sales Register System

Expenditure Measures

1. Reduce the public sector wage bill to maintain below the threshold of 53.0 percent of domestic revenue by rationalizing the public service structure and prioritizing recruitment.
2. Enhance the coherence between policy objectives and budget allocations by fortifying the one-tool approach and decentralizing government services i.e. processing of wages/salaries by each MDAs.
3. Streamline government expenditure, emphasizing quality and cost-effectiveness.
4. Approved of the Public Financial Management (PFM) Act 2023 (Amendment) by Parliament and execute the PFM Rolling Action plan.
5. Enforce the Fraud Policy through strengthening the mechanism to detect, prevent, and address fraudulent activities within government operations.
6. Review the proposed health insurance scheme as an option to fund the costs of overseas medical referral, include providing health coverage for the Public Civil Servants
7. Review the proposed asset insurance scheme as an option to fund the cost of maintenance of public infrastructure.

Table 15: Key Fiscal Indicators[13] -

Fiscal Indicators ($millions)	Actual 2022/23	Budget Estimate 2023/24	Revised Estimate 2023/24	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Overall Revenue	652.5	741.9	681.4	870.7	814.7	782.2
Tax Revenue	285.5	283.0	291.8	327.7	327.9	330.3
Total Domestic Revenue	316.1	326.5	334.2	382.3	388.9	390.3
Total Grant	336.4	415.4	347.2	488.5	425.8	391.9
Total Expense	483.8	514.8	484.3	595.2	515.2	500.7
Compensation of Employees	163.5	173.4	164.6	189.4	188.4	187.8
Operating Balance	168.7	227.1	197.1	275.5	299.5	281.5
Fiscal Balance Surplus(+)/Deficits(-)	73.4	25.3	43.6	42.8	54.9	62.4
Total Public Debt ($m)	486.5	446.9	440.8	399.3	356.2	312.7
GDP nominal ($m)	1,213.9	1,234.5	1,234.5	1,260.0	1,330.5	1,388.4
% of GDP or otherwise specified						
Overall Revenue to GDP (%)	53.8	60.1	55.2	69.1	61.2	56.3
Tax Revenue to GDP (%)	23.5	22.9	23.6	26.0	24.6	23.8
Total Domestic Revenue to GDP (%)	26.0	26.4	27.1	30.3	29.2	28.1
Total Grants to GDP (%)	27.7	33.6	28.1	38.8	32.0	28.2
Total Expense to GDP (%)	39.9	41.7	39.2	47.2	38.7	36.1
Compensation of Employees (% of Domestic Revenue) Wage Bill (<53%)	51.7	53.1	49.3	49.5	48.4	48.1
Compensation of Employees (% of Oprating Expenses <45%)	33.8	33.7	34.0	31.8	36.6	37.5
Operating Balance to GDP (%)	13.5	14.0	13.3	15.0	14.2	13.5
Fiscal Bal Surp(+)/Def(-) to GDP (%)	6.0	2.0	3.5	3.4	4.1	4.5
Total Public Debt to GDP (%)	40.1	36.2	35.7	31.7	26.8	22.5

Note: The Tonga Statistics Department has recently released its National Account Statistics 2021/2022 with actual growths of 3.36 percent (FY2017), 0.87percent (FY 2018), -0.23 percent (FY2019), 1.31 percent (FY2020), -1.26 percent (FY2021), 0.05 percent (FY2022)., the relevant updates will be incorporated in the next review of the macro-economic framework in Jully 2024.

Source: Ministry of Finance (MOF)

Fiscal Balance: *In **Table 15***, the government is implementing prudent measures by prioritising spending on key targeted areas, resulting in a fiscal surplus of $42.8m, equivalent to positive 3.4 percent of GDP in FY 2025. This is primarily due to increase in tax revenue collection and total grants for both budget support, and capital projects. In the medium term, an average fiscal surplus of 4.0 percent of GDP is expected through government fiscal restructuring efforts, including the strengthening of domestic revenue collection through implementing of revenue measures. These measures encompass reviewing tax exemptions and the upgrading of the revenue collection system.

The government remains dedicated to fiscal consolidation and targeted expenditure in key areas, such as ongoing external loan repayments. In considering of the current economic and fiscal situation, the government will continue to seek additional budgetary support as financing options in the medium term. Foreign reserves are projected to remain positive, providing over eight (8) months of import cover, while public debt is expected to stay below 50.0 percent of GDP, exceeding the IMF threshold of 40.0 percent. Tonga remains classified under the high debt distress category.

[13] Fiscal Indicators are based on the Government Fiscal Statistics (GFS)

Fiscal Anchor

Government will continue to follow the Public Finance Management Act (PFM) at all levels to ensure medium-term planning, accountability, budget control and the efficient use of public funds. Expenditure is to be contained in line with realized revenue compared to the planned budget, thus requiring the need for ongoing monitoring of fiscal anchors to maintain macro-economic stability.

Wage bill: The wage bill remains a significant risk, potentially delaying service delivery if not properly controlled. Over the past five years, the government successfully managed the wage bill, keeping it within the threshold of 53.0 percent of total domestic revenue. In the revised estimate for FY 2024, the wage bill is projected at 49.3 percent, still falling below the threshold. In FY 2025 and FY 2026, the wage bill remains below the threshold because of the increase in revenue collection to address the effects of Cost-of-Living adjustments (COLA) and including vacancies. The projection for FY 2027 stands at 48.1 percent, with the Ministry remains committed to the ongoing monitoring of the wage bill anchor.

Domestic revenue: Domestic revenues, as a proportion of GDP, is forecasted to continue surpassing the 22.0 percent benchmark, reaching 30.3 percent of GDP in FY 2025 and an average of 29.1 percent in the medium term. This represents a slight increase of $2.8m from the revised estimate for FY 2024. The expected growth in domestic revenue collection is estimated at 14.0 percent, equivalent to $48.1m for FY 2025, driven by economic development along with efforts to maintain the wage bill and unforeseen natural disasters.

Grants: Total grants are projected to rise in FY 2025 by 37.8 percent or $141.3m compared to the revised estimate in FY 2024. Most of this increase is from both current and capital grants, intended to boost by the budget support and capital projects. This increase is stimulated by contributions from ongoing projects like the Queen Salote Wharf upgrade, Tonga High School Sport Complex, as well as the initiation of major projects such as the New Parliament Building, Vavau Hospital, Queen Salote Nursing School, Fanga'uta Lagoon Bridge, Fua'amotu International Airport Upgrades, Taufa'ahau Main Road Upgrades, and the new Museum.

Public debt: The current debt portfolio is exposed to refinancing risk and exchange rate risk. The share of debt denominated in foreign currencies is estimated to be 84.0 percent of total debt as of 30th June 2024. The portfolio still has a large exposure to the Chinese renminbi (CNY) which represents 47.0 percent of the total outstanding debt. Refinancing risk mainly arises from the principal repayments, scheduled from 2024 to 2029, of the two large loans provided by the EXIM Bank. Total debt service (expenditure), for the year ended 30th June 2024, is estimated at $68.4m, comprising external $50.4m (74.0 *percent of total debt service*) and domestic $18.0m (26.0 *percent of total debt service*). This is an increase from $42.6m in June 2023, attributed to DSSI and exchange rate fluctuation. Total *public* debt as of 30th June 2024 is estimated at $440.8m *(36.0 percent of GDP)*, a decrease of $45.7m, or 9.4 percent from 30th of June 2023.

5.3 Inflation

According to data released by the Tonga Statistics Department, annual inflation dropped to 3.6 percent in February 2024 from 6.4 percent in January 2024, comfortably below the 5.0 percent threshold. Projections suggest a further decrease, with inflation expected to fall below 5.0 percent by the end of 2024.

Although imported inflation eased to 3.9 percent by the close of FY 2023, driven by lower energy prices, domestic prices surged by 12.0 percent annually during the same period. This surge was largely attributed to heightened demand during festive periods and a notable increase in local food prices. Despite concerted efforts, uncontrollable factors, such as local food prices, catering services, and international airfares, continue to exert influence on inflation.

The latest data by the Tonga Statistics Department shows a positive outlook. Imported inflation has decreased to 3.5 percent, aligning with the reduction in local inflation to 3.7 percent. The reduction in inflation has been facilitated by the proactive policies of the Reserve Bank. In May 2023, The National Reserve Bank of Tonga implemented measures to address mounting inflation by increasing its Statutory Reserve Deposit (SRD) ratio to 15.0 percent, effectively regulating liquidity in the banking system.

5.4 Poverty and Vulnerability

Tonga has been grappling with various challenges related to poverty. The dynamics of the crisis, including factors such as economic conditions, social disparities, and external shocks such as natural disasters and the global pandemic, have contributed to concerns about rising poverty levels. On that basis, poverty alleviation continues as a high priority for the government, including poor households and vulnerable groups in the society. In accordance with the latest Household Income and Expenditure Survey (HIES), 2021 dataset, poverty was assessed based on three different approaches, including multi-dimensional, extreme, and monetary poverty.

The outcome of the assessment reflects that Tonga's *multi-dimensional poverty* decreased from 27.0 percent in 2015 to 24.0 percent[14] in 2021, although it may vary among different demographic groups. For instance, child poverty declines from 33.0 percent to 28.0 percent, while poverty among adults slightly decrease from 23.0 percent to 21.0 percent. The *monetary poverty*, which is based on income levels was approximately 20.6 percent of the population, equivalent to 20,661 individuals, fall below the threshold of low living standards in 2021. The prevalence of *extreme poverty* in Tonga, measured by the population living below US$1.90 a day, has shown a notable decline to less than ***1.0 percent*** *(as of 2022).* Going forward, the emphasis will focus on the 24.0 percent multi-dimensional poverty category, in addition to the less than 1.0 percent extreme poverty category.

The government will continue to focus on assisting vulnerable and marginalized populations, including elderlies *(4536 beneficiaries,2024),* disadvantaged group *(2637 beneficiaries),* women, and children. The ongoing support includes monthly stipends to the elderlies and disadvantaged groups, grants and micro-finance schemes for women, in-kind support such as water tanks and sanitation facilities to the communities, subsidizing electricity for households consuming below 150 kWh, and the age care services, and support programs conducted by ‘Ma’a Fafine mo e famili’. In addition, the continuance of the new social policy initiatives started in FY 2024, including, the student breakfast for all primary and early childhood education schools throughout Tonga (x2 breakfasts per week), construction of the affordable housing (‘Tapanekale’ program) for low-income families and the support program towards the ‘returnees’.

The government is committed to enhancing the welfare of elderly citizens by raising monthly stipends. Individuals over 80 years old will see their stipend increase from $100 to $110 per month,

[14] Poverty in Tonga | Tonga Statistics Department (tongastats.gov.to)

while those aged 67-79 will receive an increase from $80 to $90 per month. Over the medium-term the beneficiaries are proposed to reduce from 70 to 67 years old (FY 2025), expand to 65 years old (FY 2026), and 63 years old (FY 2027). This policy change aims to support senior citizens in meeting their basic needs. This policy change also considers the decline in life expectancy from the age 69.3 to 68.3 years old for male and 74.6 to 73.7 years old for females, due to a rise in NCD related deaths[15]

The government is striving to remove financial barriers to education by offering free education up to Form 5 in government schools. This initiative ensures that all children have equal access to educational opportunities, contributing to a more equitable society in Tonga.

The Ministry of Internal Affairs continues to lead the implementation of the social sector policy and programs. These include the planned construction of three (3) age care service centres (two in Tongatapu and one in Vava'u), financially support by the Asian Development Bank and the establishment of a more encompassing and gender-sensitive social protection system support by the World Bank. This is being pursued through the development of an Adaptive Social Protection Framework in Tonga, reflecting a commitment to inclusivity and gender responsiveness in social welfare frameworks. In FY 2025, the respective budget allocation to support the social sector program has been transferred from the Ministry of Finance to the Ministry of Internal Affairs. This is to assist with the implementation of the social safety net programs and activities in consultation with their respective stakeholders.

5.5 Government Reform Program

The Prime Minister has been leading a comprehensive initiative to ensure the delivery of high-quality services to all people of Tonga. This aligns with the overall Government policy reform program which guided the development partners program of assistance to Tonga. The reform program is focussed on three key pillars:

1. **Strengthening Public Finances:** Measures have been implemented to bolster the fiscal health of the nation, through implementing the PFM Action Plan.

2. **Enhancing Resilience to Climate Change, Natural Disasters, and Health-Related Risks:** Strategies have been developed to fortify the nation's ability to withstand the impacts of climate change, natural disasters, and health crises.

3. **Enhance Economic Growth and Improving Labour Market Outcomes:** Efforts have been initiated to stimulate economic growth and enhance outcomes in the labour market, including increasing assistance to Technical and Vocational Education and Training (TVET), nursing, and other employable skill programs. Additionally, initiatives are underway to address school dropouts and increase resources allocated to education, all as part of comprehensive measures to improve labour market outcomes and foster economic growth.

The implementation of the Government reform program will continue in the next budget cycle, including the structural reforms in the public sector. That include, the ongoing organizational review of the government Ministries, Departments and Agencies (MDAs), institutional strengthening and capacity building within the public service. An ongoing implementation of decentralization of treasury functions, outsource services that can be performed by the private

[15] Population Census 2021, Tonga Statistics Department.

sector and the digitization of government services, upgrading of the government systems through implementing the E-government project.

5.6 Risks and Mitigation

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

1. Escalating costs from natural disasters and climate change

One significant concern is the escalating costs resulting from natural disasters and the effects of climate change. Tonga's susceptibility to such events poses substantial risks across environmental, social, and economic dimensions, as well as imposing financial pressures in the aftermath of disasters. To counteract this risk, the government is actively engaged in:

i. Enhancing economic and fiscal resilience through strategies such as bolstering domestic revenue collection, seeking additional financing from development partners, and prioritizing highly concessional financing.

ii. Controlled and focused spending in priority areas, adherence to policies favouring concessional financing, and the continuation of disaster insurance facilities with entities like the Pacific Catastrophic Risk Insurance Company (PCRIC) and the World Bank's Catastrophe Deferred Drawdown Option (Cat DDO).

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

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

3. Issues on managing labour mobility.

Efforts to manage challenges in labour mobility are central to the Government of Tonga's agenda. While acknowledging the economic benefits of remittances, the government is attuned to the social ramifications of emigration. A pressing concern is the "brain drain" phenomenon, where skilled individuals seek opportunities abroad, resulting in a loss of expertise critical for Tonga's development and innovation. To mitigate this risk, the government is intensifying investments in education and training, aiming to cultivate a skilled workforce capable of driving domestic growth. Recognizing the strain on sectors like agriculture due to dwindling labour, Tonga is prioritizing technology adoption(automation) through enhanced Public-Private Partnerships. The government is also taking steps to enhance private sector participation in the economy, creating more job opportunities, contributing to the development of Tonga. For instance, as part of the government

reform programme, the government is planning to outsource some of the government's functions to the private sector.

4. Lack of diversification of the Tongan economy

The limited diversification of the Tongan economy, heavily reliant on key sectors like agriculture, fisheries, and tourism, poses another risk. To address this, the government is actively working to broaden the export base, improve import substitution, and create a conducive environment for business. These are through strategies such as promoting strong public-private partnerships in fields such as construction, tourism and agriculture and improving the funding for these sectors to widen production and increase export base.

5. Limited Human Capital

Tonga faces a challenge related to its limited human capital, particularly in areas such as specialized healthcare. High staff turnover in the public service exacerbates this concern. The government is responding by investing more in education and training programs, establishing the Tonga National University, and implementing initiatives like the World Bank-funded SET Project to address high school drop-out rates. These measures aim to build a skilled and productive workforce while ensuring the retention of skilled workers within the country.

6. Fiscal Vulnerability

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

7. Institutional Capacity

Risks related to institutional capacity present an additional concern, especially concerning the acceleration of recovery-related activities and targets. The government addresses this by fostering continuous partnerships and collaboration with development partners for financial support and technical assistance. These efforts aim to enhance the capacity-building of staff and provide additional technical support for disaster recovery planning.

8. Negative External Shocks

Finally, the Tongan economy is susceptible to further upward pressure on global commodity prices, potentially triggered by a global conflict such as the Gaza crisis, and the Russia-Ukraine war. This can exacerbate pressure on the current and fiscal accounts, diminishing the purchasing power of households. Vigilant monitoring and proactive measures will be essential to navigate this risk effectively.

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

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

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

Table 16: Illustrative Budget Risk Matrix

Likelihood	Budget Risk	Possible Condition	Impact on the budget	Possible costs TOP ($)
High	Increased demand for services	Increase in the number of elderly persons without family support	Higher costs associated with health demand	5,000,000
High	Increased demand for services	Illicit drug use continues to grow	Higher costs associated with Police action	5,000,000
High	Increased costs	Increase in extreme weather events (multi-hazards assessment) including TC because of climate change	Higher costs due to recovery and reconstruction	10,500,000
High	Increased demand for services	Increase in degradation of terrestrial and marine ecosystems leading to internal migration and lower domestic food supplies	Higher costs associated with health and education demand and increased poverty alleviation measures	2,500,000
High	Increased demand for services	Water sources become affected by climate change	Higher costs associated with sourcing alternate sources of drinkable water	3,000,000
High	Inflation	The reopening of China market; and the War between Russia and Ukraine raises the costs of grain and petroleum	Higher costs associated with costs of inputs for MDAs services and price support for low-income persons	4,500,000
High	Lower revenues	Reduction in the number of working age persons	RSE, including nurses, and migration raise concerns on brain drain many of the productive workers undermining the availability of staff in the public and private sectors, causing lower productivity and less revenue	10,100,000
Medium	Increased demand for services	Major incident or large-scale emergency	Something similar to HTHH event	10,000,000
Medium	Loss of income	Assumptions regarding revenue collection are incorrect	Remittances decline leading to softer than expected demand and causing less than expected revenue	12,000,000

Source: Ministry of Finance (MOF)

6. BUDGET FOR THE MEDIUM TERM: BY FUNDING ALLOCATION

6.1 Recurrent Budget

The ***Table 17*** *below* highlights the allocation of the recurrent budget for FY 2025 – 2027, and in comparison, to the current fiscal year 2024 and actual performance in the previous year 2023. It shows that despite the original target in 2024 of a deficit budget of $30.2m (or $27.2m post-financing with bond issuance of $3.0m), the positive performance from FY 2023 in terms of domestic revenue collection and prudent spending; have contributed towards an estimated balanced budget by the end of FY 2024 (post-financing with bond issuance of $3.0m).

In addition, as the economy continues to recover from recent disasters and the pandemic, the government, with the assistance of development partners, aim to continue efforts to stimulate economic growth, enhance social protection measures, and increase climate resilience efforts. As such, the government estimates a **balanced budget** for fiscal year FY 2025 and FY 2026 and reaching a surplus of $7.3m at the end of FY 2027.

6.1.1 Recurrent Budget projections for the medium term (FY 2025 – FY 2027)

Table 17: Recurrent Budget Projections for FY 2025 – FY 2027 ($m)

	Actuals 2022/23	Original Estimate 2023/24	Revised Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27
Domestic Revenues	**352.6**	**338.8**	**353.9**	**379.9**	**389.5**	**390.6**
Tax	**278.1**	**275.4**	**284.3**	297.5	**309.1**	**310.8**
Income Tax	58.0	55.4	63.8	68.8	72.9	71.9
Trade Taxes	25.8	24.3	25.6	30.0	30.5	32.0
Tax on Goods & Services	128.3	121.4	129.4	138.8	144.9	145.9
Excise Tax	66.0	74.3	65.5	59.9	60.8	61.0
Non-Tax	**74.5**	**63.4**	**69.6**	**82.4**	**80.4**	**79.8**
Fees & Licenses	27.6	28.9	27.2	25.4	29.8	31.2
Entrepreneurial& Property	9.9	21.7	22.0	28.1	32.1	30.0
Miscellaneous	0.5	0.4	0.4	0.5	0.5	0.6
Capital & Transfers	36.5	12.4	20.0	28.4	18.0	18.0
Debt Expenditures	**43.5**	**67.1**	**67.3**	**69.3**	**70.3**	**69.9**
Balance (Domestic Rev - Debt)	**309.1**	**271.7**	**286.6**	**310.6**	**319.2**	**320.7**
Non-Debt Expenditures	**351.5**	**352.4**	**337.8**	**383.0**	**382.7**	**380.9**
Wage Bill	163.7	177.4	169.3	190.3	189.2	188.7
Operations	170.6	162.8	160.5	182.0	181.5	183.9
Assets	17.2	12.2	8.0	10.7	12.0	8.3
Balance - Non-Debt Expenditures	**(42.4)**	**(80.7)**	**(51.2)**	**(72.4)**	**(63.5)**	**(60.2)**
Budget Support	**53.7**	**50.5**	**48.2**	**72.4**	**63.5**	**67.5**
Normal allocations	10.7	38.5	36.2	38.5	38.5	38.5
Additional	43.0	12.0	12.0	33.9	25.0	29.0
Balance	**11.3**	**(30.2)**	**(3.0)**	**-**	**-**	**7.3**
Financing	**(11.3)**	**30.2**	**3.0**	**-**	**-**	**(7.3)**
New bond issuance	-	3.0	3.0	-	-	-
Cash reserves	(11.3)	27.2	-	-	-	(7.3)
Estimated cash reserves balance	**94.2**	**67.0**	**94.2**	**94.2**	**94.2**	**101.5**

Source: Ministry of Finance (MOF)

The recurrent budget for FY 2025 targets to collect total revenues of $452.3m in receipts (consisting of $379.9m in domestic revenues and $72.4m budget support), whilst aiming to spend $452.3m; resulting in a **balanced budget.**

The government aims to service all debt repayments using domestic revenues, resulting in a surplus of $310.6m to finance non-debt expenditures. However, spending on government operations, staffing and assets are higher by $72.4m. As such, budget support of $72.4m from development partners helps to fund the mentioned shortfall, resulting in a balanced budget for FY 2025; with no need to drawdown on government's cash reserves or issue any further bonds like the financing options for the current year FY 2024. Over the next medium-term, the government is anticipated to maintain spending within available resources, resulting in a $101.5m estimated cash reserves balance by the end of FY 2027.

The challenge continues for FY 2025 budget and over the medium-term, in terms of aiming to support economic recovery and strengthen national resilience with constrained fiscal space following the impacts of the HTHH tsunami and volcanic eruption in the previous financial year: besides inflationary pressures, labor shortages and debt servicing commitments. However, in response, the government prioritizes in the FY 2025 budget to strengthen fiscal discipline through continuous review of expenditures and revenue sources to improve effectiveness and efficiency in service delivery, while promoting economic recovery in partnership with all relevant stakeholders, including the private sector. As such, the following assumptions for the FY 2025 recurrent budget and over the medium-term are as follows.

Main Recurrent Revenue Assumptions:

The total level of recurrent revenues for FY 2025 is estimated to increase by $60.0m or 15.3 percent from the current financial year's original estimates (increase by $41.1m in domestic revenues, $21.9m in budget support and offset by a $3.0m decrease in new bond issuance) or in compared to the current year's revised estimates would be an increase in FY 2025 by $47.2m or 11.6 percent. The main triggers include:

- Tax revenues to increase by 4.6 percent or $13.2m in FY 2025 from the revised estimates of the current FY 2024, based on the strong performance mainly from consumption tax collection on imports, improvement in tax compliance and administration efforts, and projected growth in domestic economic activities supported by robust remittances and domestic income levels (including the COLA allowances for civil servants and increased number of beneficiaries under the social welfare scheme monthly stipends). In addition, the results of the current review on tax exemptions and expenditures are expected to help increase tax revenues collection over the medium term.

- Non-tax revenues to increase by 18.4 percent or $12.8m in FY 2025 from the revised estimates of the current FY 2024, in line with anticipated review of current public service fees and charges, continuous improvements in returns from public enterprises and the National Reserve Bank of Tonga. In addition, it is estimated that there will be an increase in debt repayments from on-lent loans made to businesses affected during the 2006 Nuku'alofa unrests, i.e. $7.7m is estimated to be received in FY 2024, $13.1m in FY 2025, and $2.7m each in FY 2026 and FY 2027).

- Budget support receipts are projected to be at $72.4m, inclusive of additional budget support of $33.9m in FY 2025 from the Australian Government ($22.0m) and the World

Bank ($11.9m). These are mainly supported by the strengthened partnerships between Tonga and its development partners linked to GPA 8 and implementing the policy triggers under the joint-policy reform matrix (JPRM) mechanism which will continue over the medium-term at $63.5m in FY 2026 and $67.5m in FY 2027 worth of total budget support.

Main Expenditure Assumptions

The total recurrent expenditure budget for FY 2025 is estimated to increase by $32.8m or 7.8 percent from the current financial year's original estimates, or if compared to the current year's revised estimates would be an increase in FY 2025 by $47.2m or 11.7 percent. The main triggers include:

- Wage bill related expenditures remain the highest share of the recurrent budget at 49.7 percent when excluding debt repayments, and 42.1 percent when including debt repayments. There are plans to continue the organizational or functional reviews of government ministries; with the aim over the medium-term to identify wage bill rationalization measures towards achieving a more efficient and effective civil service. The budget allocation for the organizational review and other public sector reform programs is at $1.8m in FY 2025 ($0.5m under the Ministry of Finance's vote and $1.3m under the vote of the Office of the Prime Minister).

- A year-on-year increase in wage bill related expenses by $12.9m or 7.3 percent in FY 2025 from the current year's original estimates or compared to the current year's revised estimates would be an increase by $21.0m or 12.4 percent. This is mainly to address the accumulated inflationary pressures over the years on civil servants' purchasing power with a COLA allowance of 5.0 percent in FY 2024 and an additional 5.0 percent in FY 2025. There are also allocations for retention and recognition of skills in the health and education workforces considering the labor mobility situation, and besides an increase by $2.2m for the government staff annual PMS awards to promote higher and quality performance in the civil service.

- $11.9m worth of spending that was initially sourced under the development budget (via additional budget support from DFAT) in the current FY 2024, which will be reflected under the recurrent budget instead in FY 2025– mainly on government wide services related expenditures such as the installation of public streetlights, electricity lifeline tariff scheme subsidies.

- $2.2m increase in debt repayments in FY 2025 from the current financial year, continuing the implementation of the government's debt management policy.

- $2.2m increase in funding towards the national social welfare scheme program to increase the number of eligible beneficiaries in the elderly group – by including those in the age of 67 (down from 70 years old), to be effective in FY 2025 (this arrangement will further expand to include those from the age of 65 in FY 2026 and 63 in FY 2027). This increased allocation also includes increasing the monthly stipend amount to the elderly (age 67-79 at $90/month, age 80+ at $110/month) and disability groups (up by 10.0 percent).
- $1.1m increase to $9.1m to continue public-private partnership projects in the agriculture, manufacturing, tourism, and fisheries sectors; in addition to preparatory work for establishing a multi-purpose facility (estimated $3.5m construction of facility in FY 2026)

for producing higher value-added exports and local production. This issue was one of the top priorities identified at the 2023 National Business Conference. In addition, there is an allocation of $1.0m as government's contribution to the Fua'amotu Resort Development project.

- Operationalization of the budget allocation to support the establishment of the Anti-Corruption Commission at $0.85m.

- Increase by $0.7m to $4.0m for government funded scholarships, in addition to a $0.1m increase for rations of students at the Tonga College 'Atele following their new dormitories establishment under the World Bank-funded Tonga safe and resilient school project.

- Increase by $0.5m for the maintenance budget of the Ministry of Health resulting in $1.5m per annum over the next medium-term for the upkeep of the hospitals and health facilities, besides an increase by $0.2m to $4.2m for medical drugs and supplies to support the continuation of free public healthcare.

- Allocation of $1.15m in FY 2025 for hosting the 53rd Pacific Island Leaders Forum meeting, in addition to other financial and in-kind contributions from development partners.

- $1.8m worth of government contribution towards the social protection related ADB project of building new integrated age care service centers.

- Increased provision of public education up to Form 5 level (at a revenue forgone to government worth $1.0m).

- $0.5m increase in grants to non-government schools (secondary and TVET levels) to cater for a 10 percent increase i.e., secondary schools increase from $700/head to $770/head and TVET schools increase from $1,200/head to $1,320/head.

- $0.5m allocation for the construction of the new residential building of the Governor for Vava'u.

- $0.2m for national broadcasting of live parliament sessions towards enhancing transparency and accountability objectives.

- $0.2m as government contribution towards the construction of the new Parliament building development funded project.

- $0.25m worth of grants dedicated towards women and youth business empowerment, an initiative led by the Ministry of Trade and Economic Development.

- $0.2m for strengthening existing and expanding fire emergency services in Tongatapu and the outer islands, including renovations, staff trainings in paramedic science and construction of new branches alongside police stations in Houma (Tongatapu) and Leimatu'a worth more than $1m funded under the existing Illicit Drugs Fund.

- Maintenance of Tonga's overseas mission offices at New York and San Francisco to ensure the upkeep of the buildings towards the required standards over the medium to long term, beginning with $0.4m allocation in FY 2025, or an increase from $0.2m in the current FY 2024.

- $0.1m grant allocation to the Hango Institute of Agriculture in 'Eua.

- $0.1m allocation per annum towards the maintenance and upkeep of the Customs x-ray machines at Tonga's borders, which has seen positive returns of investing in these machines to combat illicit drugs.

- Strengthening of staff capacity in various areas to support service delivery to the public, such as:
    - $0.1m to support the Youth Diversion Scheme led by the Ministry of Justice for addressing youth cases under principles of restorative justice
    - $0.2m to support the implementation of the Disaster Risk Management Act 2021 led by the National Disaster Risk Management Office (NDRMO) and the Energy Act 2021 led by the Energy Department under MEIDECC towards strengthening national resilience to climate change impacts
    - $0.1m to support the national planning department (Prime Minister's Office) to prepare for the new national strategic framework (post-TSDF II)
    - $0.07m to support the establishment of the national intelligence unit under the Prime Minister's Office
    - $0.08m to support the installation, geodetic surveys and continuous monitoring and maintenance of the project funded Global Navigational Satellite System sets as part of the tsunami early warning system initiatives. These stations will help provide a more accurate land motion results to support the current seismic networks in Tonga.
    - 2 new staff positions with operations to support the expansion of the Ombudsman office's services to Ha'apai.
    - Factoring in costs from staff promotions that were implemented in FY 2024 for His Majesty's Armed Forces worth $0.3m
    - 2 new staff positions for strengthening real sector data collection and analysis under the Statistics department towards assisting GDP forecasting and national accounts.

- $22.9m has been allocated as funding for road maintenance works under the Road Maintenance Fund (RMF) and $12.8m for sports development; both as revolving funds.

- Allocation remains for combatting illicit drugs at $15.0m over the next medium-term at $5.0m per annum.

- Continuance of the $1.2m allocation in FY 2025 for the twice-a-week breakfast meal program provided to all primary and early childhood education schools, both government and non-government.

- Continued allocation at around $0.3m for His Majesty's 65th birthday celebration.

- The Ministry of Finance will collaborate with the NRBT to put in place strategies to manage the wage bill and other Government expenditures with their respective contribution to inflationary pressures and their impact on purchasing power and operational costs into medium to long-term strategies.

- More focus on risk management and contingency planning are incorporated into the Government national resilience and safeguard against unforeseen fiscal pressures.

.*6.1.2 Recurrent Expenditure by Category*

Table 18: Total Recurrent Payments Budget by Category ($m)

	Actuals 2022/23	Original Estimate 2023/24	Revised Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27
Established Staff	147.6	158.0	149.8	172.6	171.6	171.0
Unestablished Staff	12.0	15.5	14.8	13.8	13.8	13.8
Travel & Communications	19.6	13.6	15.4	13.0	15.0	15.0
Maintenance & Operations	23.8	19.7	21.2	21.0	18.9	20.1
Purchase of Goods & Services	64.5	59.6	60.8	66.2	64.8	64.8
Grants & Transfers	58.1	54.5	56.8	62.0	62.9	63.9
Development Duties	2.7	4.8	2.9	5.6	5.6	5.9
Debt	43.5	67.1	67.3	69.3	70.3	69.9
Contingency Fund	0.0	5.0	0.0	5.0	5.0	5.0
Pension & Gratuities	4.1	3.9	4.7	3.9	3.9	3.9
Assets	17.2	12.2	8.0	10.7	12.0	8.3
Equity Payments	0.4	0.2	0.0	0.1	0.1	0.1
Private Sector Development	1.4	5.4	3.4	9.1	9.1	9.1
Grand Total	**394.9**	**419.5**	**405.1**	**452.3**	**453.0**	**450.8**

Source: Ministry of Finance (MOF)

In the current FY 2024, recurrent spending is estimated to reach $405.1m by June 2024 compared to an original budget of $419.5m, or an under-spending of the budget by $14.4m. This is mainly because of under-spending in the established staff category which is in line with the increasing trend of unfilled vacancies, particularly in the Ministries of Health, Education and technical positions which ministries are finding it challenging to keep such technical skills relative to similar positions with higher compensation in donor funded projects or overseas. Part of government's response includes the implementation of COLA allowances for all civil servants to help maintain real purchasing power of their income, and retention or duty allowances towards the Ministries of Health and Education' teachers and medical staff. This largely contributes to the increase in wage bill expenditures by 7.3 percent or $12.9m in FY 2025 from the original estimates of the current FY 2024.

The second highest group of the recurrent budget is on debt repayments, at 15.3 percent of government's total recurrent budget, with most payments being made to the EXIM Bank for the post-unrests' reconstruction works. It is expected, however, that such repayments will end by FY 2030 and would allow significant fiscal space for the government to continue with increased implementation efforts towards achieving the country's development agenda.

The allocation towards the 'purchase of goods and services' category, which is the third highest group of spending, at $66.2m estimated for next year FY 2025, is estimated to increase by $6.6m or 11.1 percent from the original estimates of the current year FY 2024. This is largely due to costs related to the hosting of the Pacific Forum Leaders meeting at $1.15m, increased allocation by $0.2m towards the hospital's supplies of medical drugs to the public, and $3.9m worth of spending that was initially funded under the development budget (through additional budget support) such as public street lights installation and the national information and communication technology

(NICT) project between the Government of Tonga and the Tonga Communications Corporation (TCC). In addition, are increased allocations to cater for operations of government such as electricity, office rental costs and rations for health patients, which are also impacted by rising food and fuel prices.

Spending under the 'grants and transfers' category is expected to increase by 13.8 percent or $7.5m in FY 2025 to $62.0m from the original estimates of the current year FY 2024, due to a reallocation of expenses in the current year from the development budget (through additional budget support) worth $4.4m towards subsidies, illicit drugs fund and public sector reform, there is an increase in government-funded scholarships by $0.7m particularly to address various technical skills gap identified; and new dedicated funding of $0.25m for youth and women business empowerment to contribute towards addressing the issue reported under the Tonga Youth Thematic Report (Statistics Department, 2019), where a relatively high proportion of women aged 15-34 (youth) or 44.5 percent are not employed. Furthermore, as mentioned earlier is the $2.2m increase in funding towards the national social welfare scheme program for the elderly and disability groups, a $0.5m increase in grants to non-government schools (secondary and TVET levels), and $0.1m grant allocation to the Hango Institute of Agriculture in 'Eua.

In terms of the 'maintenance and operations' spending category, although it is estimated at $21.0m in FY 2025, this does not reflect the allocation towards road maintenance works, but under revolving funds (development budget) under the Roads Act establishment of the Roads Maintenance Fund (RMF), estimated at $22.9m in FY 2025.

6.1.3 Recurrent Expenditure by Ministry, Department and Agency (MDA)

Table 19 *below*, shows the allocation of the recurrent budget by MDA. Overall, it reflects that most MDAs' allocations increase in the next FY 2025 due to the implementation of the COLA allowance i.e. the 5.0 percent effective in January 2024 and the 5 percent effective in July 2024; but also factoring in completion of one-off events in FY 2024 such as the construction of the old PMO building (reflected under the Ministry of Foreign Affairs allocation).

Notably, the Ministry with the highest increase[16] in the next FY 2025 from the current year's original estimates is the Ministry of Education and Training, which increases by $7.5m from $63.1m in FY 2024 to reflect the duty/ retention allowance for teachers, increased funding for scholarships, and grants to non-government schools (TVET and secondary schools). The largest share of the budget in FY 2025 continues to be in the Ministries of Health (12.4 percent) and Education and Training (15.6 percent), apart from the Ministry of Finance's government general fund that centralizes payments for government-wide services (e.g., streetlights).

[16] Excluding increases that are merely due to either change in source of funding or reallocation between Ministries.

Table 19: Recurrent Expenditure by Ministry ($m)

Ministry, Department, Agency	Actuals 2022/23	Original Estimate 2023/24	Revised Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27
Palace Office	4.1	4.9	4.2	4.9	4.3	4.3
Office of the Legislative Assembly	15.7	15.0	15.4	16.0	16.1	16.0
Office of the Auditor General	1.9	2.2	1.9	2.2	2.2	2.2
Office of the Ombudsman	1.5	1.6	1.4	1.7	1.7	1.7
Ministry of Foreign Affairs	13.9	14.5	13.8	14.3	14.4	14.4
His Majesty's Armed Forces	11.5	12.0	11.0	12.3	12.2	12.2
Prime Minister's Office	9.6	10.2	9.2	13.4	11.5	11.4
Ministry of Finance	107.6	117.2	110.0	119.3	120.4	120.3
Ministry of Revenue and Customs	10.6	11.0	9.6	11.2	11.0	12.1
Ministry of Public Enterprises	1.3	1.9	1.3	1.9	1.9	1.9
Ministry of Trade and Economic Development	7.2	6.6	6.5	7.4	10.7	7.2
Ministry of Justice and Prisons	13.0	13.4	12.9	13.3	13.3	13.5
Attorney General's Office	3.1	3.3	2.8	3.4	3.5	3.5
Ministry of Tonga Police	12.4	13.3	13.2	14.2	14.3	14.2
Ministry of Health	52.4	55.7	57.5	56.2	55.9	55.6
Ministry of Education and Training	59.0	63.1	65.5	70.6	70.6	70.6
Ministry of Internal Affairs	5.3	6.2	7.2	15.6	14.8	15.8
Ministry of Agriculture, Forestry and Food	9.4	9.4	9.2	13.0	12.8	12.7
Ministry of Infrastructure	21.0	20.0	18.5	15.1	15.3	15.3
Ministry of Lands, Survey and Natural Resources	6.0	6.5	6.2	6.7	6.8	6.8
Office of the Public Service Commission	1.9	2.1	1.9	2.1	2.2	2.2
Statistics Department	2.6	3.0	2.9	3.0	3.3	3.3
Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change	8.0	8.9	8.0	10.3	10.1	10.1
Ministry of Fisheries	4.6	4.6	4.1	7.6	7.5	7.5
Ministry of Tourism	7.3	7.7	6.6	10.5	10.5	10.4
Tonga Fire and Emergency Services Department	4.0	4.5	4.4	5.1	4.9	4.9
Office of the Anti-Corruption Commissioner	0.0	0.8	0.0	0.9	0.7	0.7
Grand Total	**394.9**	**419.5**	**405.1**	**452.3**	**453.0**	**450.8**

Note that adding up of the individual ministry budgets will not add up to the exact total shown here on the table due to the rounding off the allocations to millions. In this regard, the allocations per ministry (not rounded off) are shown in Table 7 of the Budget Estimates 2025.

Source: Ministry of Finance (MOF)

6.1.4 Recurrent Expenditure by Location

Table 20: Recurrent Expenditure by Location ($m)

Location	Actuals 2022/23	Original Estimate 2023/24	Revised Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27
Nationwide	110.1	100.7	93.0	123.1	118.4	119.8
Tongatapu	238.3	268.6	264.5	277.6	283.1	279.6
Vava'u	16.4	19.0	18.0	19.6	19.1	19.0
Ha'apai	8.8	9.7	9.3	9.7	9.6	9.6
'Eua	6.2	6.9	6.5	7.1	7.2	7.2
Niuatoputapu	2.3	2.8	2.4	2.8	2.9	2.9
Niuafo'ou	1.6	1.8	1.5	1.7	1.8	1.8
Overseas Missions	11.1	10.0	9.9	10.7	10.9	10.9
Grand Total	**394.8**	**419.5**	**405.1**	**452.3**	**453.0**	**450.8**

Source: Ministry of Finance (MOF)

Table 20 above, shows the distribution of the government's recurrent budget by location, of which Tongatapu with the most population density has most of the recurrent budget allocations, averaging at over 60.0 percent per annum. This share is expected to increase in FY 2025 to 61.0 percent, reflecting the volume of economic activities and the moderate increase on average population growth in Tongatapu compared to the rest of the islands.

6.1.5 Recurrent Revenue by Category

Table 21: Total Recurrent Revenue Budget by Category ($m)

	Actuals 2022/23	Original Estimate 2023/24	Revised Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27
Income Tax	58.0	55.4	63.8	68.8	72.9	71.9
Trade Tax	25.8	24.3	25.6	30.0	30.5	32.0
Tax on Goods & Services	128.3	121.4	129.5	138.8	144.9	145.9
Excise Tax	66.0	74.3	65.5	59.9	60.8	61.0
Fees and Licenses	27.6	28.9	27.2	25.3	29.8	31.2
Enterpreneurial and Property	9.9	21.7	21.9	28.2	32.1	30.0
Miscellaneous	0.5	0.4	0.4	0.5	0.5	0.6
Capital & Transfers	36.5	15.4	23.0	28.4	18.0	18.0
Budget Support	53.7	50.5	48.2	72.4	63.5	67.5
Grand Total	**406.3**	**392.3**	**405.1**	**452.3**	**453.0**	**458.1**

Source: Ministry of Finance (MOF)

In ***Table 21***, the collection from tax revenues[17] is expected to increase by 4.6 percent or $13.2m in FY 2025 compared to the revised estimates in the current FY 2024 or compared to the original estimates FY 2024 would be an increase by $22.1m or 8.0 percent. There will be no increase or introduction of any new or higher tax rates in FY 2025 and over the medium-term, rather the increased collection is because of the expected improvement in tax compliance levels and effectiveness of the tax and revenue administration systems. In addition, the expected increase in economic growth, trade and income will support the higher collection in tax revenues over the next medium-term.

The largest share, at 36.5 percent of domestic revenues, is from tax on goods and services, which is expected to increase in FY 2025 to $138.8m or 7.3 percent increase from the revised estimates of the current FY 2024. This is supported by the positive performance in consumption tax (CT) collected domestically and on imports, reflecting higher imports to support domestic economic activities, but also the impact of rising prices. Efforts are on-going to improve tax compliance and administration such as the implementation of Phase 2 of the Electronic Sales Register System, to capture and monitor accurate data to create a reliable database for assessing, calculating, and imposing liability for a tax.

The second largest share of tax revenues at 18.1 percent of domestic revenues is collected from the income tax category, which is expected to increase to $68.8m in FY 2025, or a 7.8 percent increase from the revised estimates of the current FY 2024. This is supported by positive performance in large businesses in terms of corporate taxes, withholding tax from non-residents such as increasing number of international consultants and businesses, and income tax from civil servants that are due to the COLA allowances (5.0 percent increase in January 2024 and an additional 5.0 percent increase in July 2024) and other renumeration packages towards the health and education staff and the staff performance management system for all civil servants.

[17] (inclusive of income tax, trade tax, tax on goods and services, excise tax)

The third largest share of tax revenues at 15.8 percent is collected from excise tax, which is expected to decrease to $59.9m or by 8.5 percent in FY 2025 from the revised estimates in the current FY 2024. This is because of the portion being redirected to fund the RMF under the Roads Act arrangement, but also due to a change in the dynamics involved in the imported goods that are subject to excise tax. For instance, similar types of imported goods now have lower levels of sugar content that are below the excise tax threshold which thus contributes to a decrease in collection from excise tax despite higher level of imports. Efforts of the Ministry of Revenue and Customs are currently reviewing this issue for a tailored policy response to ensure the desired health outcomes of imposing higher taxes on unhealthy foods and drinks.

The estimated increase from the collection of non-tax revenues in the next FY 2025 by 18.4 percent or $12.8m from the current year's revised estimates to $82.4m, includes a review of government's current fees and charges to help increase level of domestic revenues to further support the increasing demand from the public on the accessibility and quality of service delivery. It is expected that there will be a further increase in dividends from the National Reserve Bank of Tonga to $18.0m from the $14.3m received in the current fiscal year 2024; and an increase in repayments from on-lent loans to businesses affected in the 2006 riots by around $5.3m in FY 2025 from $7.8m in the current year's revised estimates. In addition, there is an estimated $9.2m worth of revenues mainly from vehicle-license related fees that are being redirected to the RMF as revenue streams for road maintenance related spending.

6.1.6 Recurrent Revenues by Ministry, Department and Agency

Table 22 below shows the allocation of the recurrent revenues collected by the Ministry, Department and Agency (MDA). Overall, it reflects that all MDAs' revenue targets for the next FY 2025 vary depending on the current year's performance and towards more realistic levels.

Notably, the Ministry with the highest increase in the next FY 2025 from the current year's revised estimates is the Ministry of Finance, which increases by $34.2m or 38.7 percent; mainly because of additional budget support from Australia and the World Bank, and receipts from the on-lent loan repayments of businesses affected in the 2006 unrests. This is followed by the Ministry of Revenue & Customs with an increase in FY 2025 by $19.4m or 6.9 percent from the revised estimates in FY 2024, due to improved tax administration and compliance efforts.

Table 22: Recurrent Revenues by Ministry Department and Agency ($m)

Ministry, Department, Agency	Actuals 2022/23	Original Estimate 2023/24	Revised Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27
Office of the Auditor General	0.2	0.2	0.2	0.2	0.2	0.2
Ministry of Foreign Affairs	4.2	4.5	3.6	4.3	5.5	5.6
His Majesty's Armed Forces	0.0	0.0	0.0	0.0	0.0	0.0
Prime Minister's Office	0.1	0.0	0.1	0.1	0.1	0.1
Ministry of Finance	99.0	88.2	93.1	122.4	106.4	107.8
Ministry of Revenue and Customs	274.0	271.4	280.0	299.4	311.2	313.0
Ministry of Public Enterprises	5.5	4.0	4.0	5.0	5.7	6.0
Ministry of Trade and Economic Development	0.7	0.6	0.7	0.8	0.9	1.0
Ministry of Justice and Prisons	1.8	2.0	1.8	2.1	2.3	2.4
Ministry of Tonga Police	1.1	1.2	1.2	1.2	1.4	1.5
Ministry of Health	1.1	1.3	0.9	1.2	1.3	1.4
Ministry of Education and Training	2.6	2.2	1.9	1.3	1.4	1.6
Ministry of Internal Affairs	0.1	0.1	0.1	0.1	0.2	0.2
Ministry of Agriculture, Forestry and Food	1.3	1.2	1.3	1.6	1.8	1.9
Ministry of Infrastructure	9.2	9.7	10.2	6.3	7.7	8.2
Ministry of Lands, Survey and Natural Resources	0.9	0.9	1.1	1.1	1.2	1.4
Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change	1.1	1.0	1.0	1.1	1.1	1.1
Ministry of Fisheries	3.3	3.7	3.7	3.9	4.3	4.4
Ministry of Tourism	0.1	0.1	0.2	0.3	0.3	0.3
Grand Total	**406.3**	**392.3**	**405.1**	**452.3**	**453.0**	**458.1**

Note that adding up of the individual ministry revenue allocations will not add up to the exact total shown here on the table due to the rounding off of the allocations to millions. In this regard, the targets per ministry (not rounded off) are shown in *Table 14* of the Budget Estimates 2025. However, the Ministry of Finance's revenue target would also factor in the total budget support amount in Table 17 of the Budget Statement 2025

Source: Ministry of Finance (MOF)

6.2 Development Budget

The aggregate development budget for FY 2025 is estimated to $446.9m consisting of $211.9m (47.4 percent) as Cash and $235.0m (52.6 percent) as an in-kind contribution, respectively.

Table 23: Total Development Budget (Development funded Project Expenditure) ($m), FY 2024-2027

Envelope	Actual FY2022/23	Approved Budget FY2023/24	Estimated Outturn FY2023/24	Budget Estimate FY2024/25	Projection FY2025/26	Projection FY2026/27	% FY 2024/25
Cash	112.1	96.3	96.2	211.9	139.2	122.5	47.4
Inkind	116.8	268.4	202.4	235.0	246.1	225.1	52.6
Grand Total	**228.9**	**364.7**	**298.6**	**446.9**	**385.3**	**347.6**	**100.0**

Note: Development Cash components include Revolving funds of $35.7m for FY 2025 *($30.8m Government of Tonga Funds and $4.9m Overseas Donor Funds*), $23.0m for FY 2026 (*Government of Tonga Funds only*) and $23.2m for FY2027 (*Government of Tonga Funds only*).

Source: Ministry of Finance (MOF)

The overall development budget estimate is projected to increase from FY 2024 to FY 2025 by 22.5 percent, due to commencement of new projects such as the affordable housing project, Outer Island Jetties, Vava'u Hospital, Grid Strengthening, Tonga Hawaiki Branch System, Integrated Aged care project and other major Infrastructure Projects, Energy-related projects, Tourism Industry Accommodation, Resilience projects Revolving funds and additional Budget Support.

6.2.1 Development funded Project Expenditure by Ministry

Table 24: illustrates the total development budget allocated by Ministries:

Table 24: Total Development Budget (Development funded Project Expenditure) by MDAs ($m)

MDA	Actual FY2022/23	Approved Budget FY2023/24	Estimated Outturn FY2023/24	Budget Estimate FY2024/25	Projection FY2025/26	Projection FY2026/27	% FY 2024/25
Palace Office	0.1	0.1	0.0	0.0	0.0	0.0	**0.0**
Legislative Assembly	6.5	2.6	1.6	10.1	40.1	10.1	**2.3**
Tonga Office of the Auditor General	0.0	0.2	0.2	0.2	0.2	0.2	**0.0**
Ministry of Foreign Affairs	1.5	0.3	0.2	1.8	0.9	0.9	**0.4**
His Majesty's Armed Forces	6.3	11.7	9.0	2.7	6.0	5.5	**0.6**
Prime Minister's Office	1.8	7.4	5.2	7.5	0.7	0.7	**1.7**
Ministry of Finance	40.6	22.1	27.3	88.4	53.6	53.2	**19.8**
Ministry of Revenue & Custom	0.0	0.0	0.0	0.2	0.0	0.0	**0.0**
Ministry of Public Enterprises	0.0	0.0	2.5	25.0	16.0	15.0	**5.6**
Ministry of Trade and Economic Development	0.0	0.5	0.3	0.2	0.1	0.1	**0.0**
Ministry of Justice and Prison	1.1	0.4	0.4	3.8	1.0	0.5	**0.9**
Attorney General's Office	0.1	0.1	0.2	0.2	0.2	0.2	**0.0**
Ministry of Police	0.6	3.4	2.5	3.2	0.7	0.7	**0.7**
Ministry of Health	23.3	15.2	14.0	21.8	30.5	25.4	**4.9**
Ministry of Education & Training	15.3	72.0	51.3	66.7	59.3	64.0	**14.9**
Ministry of Internal Affairs	11.1	10.9	5.5	18.1	14.9	18.1	**4.1**
Ministry of Agriculture, Food & Forests	4.5	2.8	1.7	2.5	2.2	2.2	**0.6**
Ministry of Infrastructure	59.9	123.5	104.0	110.3	98.2	110.8	**24.7**
Ministry of Lands & Natural Resources	3.2	14.7	12.9	5.8	10.9	7.6	**1.3**
Public Service Commission	0.1	0.1	0.1	0.1	0.1	0.1	**0.0**
Statistics Department	0.9	0.9	0.9	0.7	0.7	0.0	**0.2**
Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change	46.2	64.1	48.0	63.9	30.6	20.1	**14.3**
Ministry of Fisheries	5.3	8.0	8.4	4.9	0.6	0.6	**1.1**
Ministry of Tourism	0.2	1.2	0.4	6.7	5.1	0.0	**1.5**
Ministry of Fire&Services	0.3	2.6	2.0	2.1	12.7	11.6	**0.5**
Grand Total	**228.9**	**364.7**	**298.6**	**446.9**	**385.2**	**347.6**	**100.0**

Source: Ministry of Finance (MOF)

The *Ministry of Infrastructure* has the highest allocation of funds with $110.3m (24.7 percent) followed by the *Ministry of Finance* with $88.4m (19.8 percent), *Ministry of Education & Training* with $66.7m (14.9 percent), *MEIDECC* with $63.9m (14.3 percent) and the *Ministry of Public Enterprises* with $25.0m (5.6 percent), with the other line ministries implementing development funded projects in different thematic areas.

Ministry of Infrastructure (MOI): The estimated budget for the Ministry of Infrastructure FY 2025 is $110.3m with a substantial decrease of $13.2m from the FY 2024. Major projects that are expected to be heavily implement during the last two quarters of FY 2024 includs: HTHH volcanic eruption and tsunami reconstruction of residential houses, additional DFAT budget support allocation towards reconstruction to be fully utilised, together with the ADB's TPDF fund which will end in June 2024, used to prepare for the Queen Salote Ports upgrade and Fanga'uta Lagoon project. However, the Tonga Climate Resilient Transport project II of the World Bank is currently in progress with its implementation together with the Queen Salote Ports upgrade project funded by ADB. The upgrading of the Royal Tombs project was launched in the current financial year and to be executed in the next 2 financial years.

Ministry of Finance: The total budget allocation for the Ministry of Finance for FY 2025 is amounted to $88.4m with a significant increase of 66.3m from FY 2024. Majority of this substantial increase is due to the World Bank Catastrophe Deferred Drawdown (CatDDO) as well as the Asian Development Bank Contingency Disaster Financing (CDF) for Tonga to address shocks related to natural disasters and health related events, only when a state of emergency is declared.

Ministry of Education & Trainings (MET): The total budget for the Ministry of Education & Training for FY 2025 is $66.78m with a decrease of $5.3m from FY 2024, reflecting the completion of the Tonga High School Sports Complex early in the first quarter of FY 2025. This also includes the end of COVID-19 local scholarships due to the closure of the boarders, and the end of the Skills & Employment for Tongans (SET) Project in in December 2024. There have been significant delays in the design and subsequent construction of the Tsunami Schools and 'Atele Dormitories, however, these delays resulted in a reduction of the project's disbursement rate forecasted by the end of FY2024.

Agriculture Sector:

The performance for the Ministry of Agriculture indicates the continuing programmes of the Ministry which have been supported through major Projects. The Tonga Rural Innovation Project (TRIP) Phase 2 is coming to a completion by March 2025 with a possibility for an extension to TRIP 3 to offer rural and community support. The Food and Agricultural Organization (FAO) Technical Cooperation Programme (TCP) continue in its rounds of assistance providing a clear focus on Agri-food system transformation with climate smart agriculture practices and better managed coastal fisheries resources. The People's Republic of China's is continuing its support through agricultural experts and technicians specialized in agronomy, irrigation, & livestock production with the aim of improving agricultural productivity and to increase food security, wihle the Government of Japan through there Non-Project Grant Aid (NPGA) supports the Ministry with equipment for processing yields for domestic consumption, as well as equipment for packaging and exporting produce for international markets. PHAMA Plus continues to support farming households in Tonga through the public private partnerships to increase the quantity and quality of their agricultural, horticultural, and cultural exports in ways that benefit producers, exporters and importers.

Tourism:

The Ministry of Tourism has significantly increased in its budget for FY 2025 by $6.3 m due to the upcoming Tonga National Museum that has been funded from the Government of Saudi Arabia. The Ministry of Tourism will work in partnership with the Tonga National University for its implementation towards an outcome for tourism purposes. Also, a newly built accommodation single studio prefab island rooms (known as 'Fale') is to be distributed amongst tourist operators to further boost their capacity to serve and accommodate tourists and support in preparation for the upcoming PIFS Leader's Meeting.

Fisheries:

The Budget for the Ministry of Fisheries is declining in the FY 2025 by $3.5m and this attributes to the near completion to one of the major projects of the Ministry funded by the World Bank under the Pathway to Sustainable Oceans Project (PSOP). The Project has completed SMA Compliance boat distributions including additional observers in place for SMA monitoring and remaining small infrastructural works to be completed all by April 2025. Other existing programmes of the Ministry continues such as the FFA in monitoring fishery resources in Tonga with provision of expertise, technical assistance and other support to its on tuna management, the New Zealand National Institute of Water and Atmospheric Research (NIWA), South Pacific Commission (SPC) and Tonga National Fisheries Council (NFC), that continue to enhance the governance, management, economic and biological sustainability of the demersal line fishery in Tonga funded by MFAT; Australia's support for Tonga through the Pearl Industry Development Project; the Observer Training; and the Atlantis Fishing Company in exploring the possibility of establishing a small-scale loining process facility with the support of the Government.Tonga funded by MFAT. Australia continues to support Tonga's pearl industry through the Pearl Industry Development Project. Other small, scaled initiatives include ongoing Observer Training, Atlantis Fishing

Company in exploring the possibility of establishing a small-scale loining process facility with the support of the Government.

6.2.2 Development Expenditure by Location

The ***Table 25*** illustrates the development budget by location: Tongatapu, Vava'u, Ha'apai, 'Eua, the two Niuas, and Nationwide.

Table 25: Total Development Budget (Expenditure) by Location ($m)

Location	Actual FY2022/23	Approved Budget FY2023/24	Estimated Outturn FY2023/24	Budget Estimate FY2024/25	Projection FY2025/26	Projection FY2026/27	% FY 2024/25
Eua	4.6	8.3	6.0	8.9	6.3	7.9	2.0
Ha'apai	8.7	6.8	9.2	8.0	7.3	6.8	1.8
Nationwide	127.2	126.6	109.2	171.4	149.8	155.8	38.4
Niuafo'ou	3.8	3.9	3.0	2.5	0.1	0.1	0.6
Niuatoputapu	2.6	0.0	0.0	0.1	0.1	0.1	0.0
Overseas	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Tongatapu	65.9	193.9	151.6	237.6	193.7	152.2	53.2
Vava'u	15.5	25.1	19.6	18.4	28.0	24.7	4.1
Grand Total	**228.9**	**364.7**	**298.6**	**446.9**	**385.3**	**347.6**	100.0

Source: Ministry of Finance (MOF)

Tongatapu has the highest provision by location, of $237.6m (53.2 percent). The major projects that are currently being implemented in Tongatapu are the Nuku'alofa Port Upgrade Project, Tonga High School Sports Complex, Tonga Integrated Urban Resilience Sector Project, Wind Power Station, Legislative Assembly building, the upgrade of the Mala'e Kula Royal Tombs, the planned upgrade of the Queen Salote Nursing School, Tonga National Museum and Integrated Aged Care Project.

Nationwide with an estimated budgeted for FY 2025, of $171.4m or 38.4 percent of the total development envelope. The ongoing multi-million-dollar projects being implemented throughout the mainland and the outer-islands include, road maintenance and upkeep, the affordable housing scheme, outer island jetties, Tonga Hawaiki branch system project, regional vaccines project and capacity building, the Irish Trust Fund initiative, TSRSP, Tonga Fish Pathways Project and ongoing scholarship opportunities for tertiary education.

Vava'u: Has an estimated provision of $18.4m (4.1 percent) of the aggregate development budget. Major projects that are currently ongoing include, the Transport Resilience Sector assisting in road rehabilitation and maintenance, the new Vava'u hospital building and the upgrading of the Fangatongo Military Camp staff quarters.

Ha'apai: The estimated budget allocation for Ha'apai is $8.0m, an increase of $1.2m from the previous financial year due to the execution of new projects including the Ha'apai NDRMO Emergency Warehouse as well as the upgrading of the road and wharf.

'Eua: Assistances to 'Eua is estimated to $8.9m, an increase of $0.6m from financial year 2024. Major projects include the reconstruction of the 'Eua wharf – bridge Road works and upgrading of the Nafanua wharf under the TCRTP project.

Niuatoputapu & Niuafo'ou: The estimated budget for the two Niuas, is with a total of $2.6m mainly for the Tonga renewable energy-based hybrid mini-grids project, provision of tractor grass cutter and the works towards the Niuafo'ou wharf under the TCRTP project.

6.2.3 Development Expenditure by Development Partners

Tonga's Development Partners continue to provide support as shown in the ***Table 26*** and the details are provided in the Annex III.

Table 26: Total Development Budget (Expenditure) by Development Partners ($m)

Development Partners	Actual FY2022/23	Approved Budget FY2023/24	Estimated Outturn FY2023/24	Budget Estimate FY2024/25	Projection FY2025/26	Projection FY2026/27	% FY 2024/25
Asian Development Bank (ADB)	41.5	85.4	58.2	67.5	50.0	40.8	15.1
CROP Agencies	0.8	1.7	0.9	0.9	0.7	0.6	0.2
European Union	1.9	4.3	3.1	3.1	3.3	0.3	0.7
Government of Australia	60.3	50.5	52.0	73.3	30.8	23.1	16.4
Government of Japan	2.6	2.3	1.8	8.3	43.2	43.2	1.9
Government of New Zealand	32.0	32.8	30.6	49.1	21.8	15.1	11.0
Green Climate Fund	9.9	16.7	12.9	8.8	5.0	5.0	2.0
Other Donor	6.1	5.8	5.8	12.1	27.9	22.8	2.7
People's Republic of China	10.8	41.2	32.5	72.5	15.0	10.3	16.2
Pooled Funds - Australia & NZ	0.0	0.5	0.6	15.1	50.1	20.1	3.4
Receiept for Revolving Fund	0.0	0.0	0.0	35.7	23.0	23.2	3.6
United Nation Agencies	11.3	6.5	4.2	8.3	6.5	6.2	1.9
World Bank/International Development Agency	51.7	117.1	96.0	92.2	108.0	136.9	20.6
Grand Total	**228.9**	**364.7**	**298.6**	**446.9**	**385.3**	**347.6**	**100.0**

Note: Receipt for Revolving Fund for FY 2025, $35.7m consists of $30.8m, Government of Tonga Funds and $4.9m Overseas Donor Funds. FY 2026 and FY 2027 are Government of Tonga Funds only.

Source: Ministry of Finance (MOF)

6.2.4 Major Projects for Development Expenditure (FY2025)

Table 27 shows the major projects that are currently mobilized by the Development Partners including Nuku'alofa Ports Upgrade Project – Queen Salote Wharf, Contingency disaster financing and Tonga Renewable Energy Project supported by the Asian Development Bank (ADB). The World Bank Projects compromise of the Catastrophe deferred draw down, Tonga Climate Resilience Transport Project, Tonga Safe & Resilient Schools Project, Pacific Resilience Energy Project, and the Vava'u Hospital Reconstruction. The Wind Power Station, THS Sport Complex and the upgrading of the Royal Tomb (Mala'eKula) funded by the People's Republic of China. DFAT continues to assist with scholarships, co-financing with MFAT the construction of the parliament new building and the Queen Salote Nursing School, contribution to the Pacific Leaders Forum, Fabricated TVET facilities, Tonga renewable energy stabilization package (Grid strengthening, Generator set, NNUP) and additional Budget Support. The NZ International Development Cooperation Contribution, Tonga Hawaiki branch system project and regional scholarships are continually supported by MFAT. The Government of Japan contributes through the new Fua'amotu International Airport, Economic and social development project, and Grant for Grassroots and human security projects.

Table 27: Total Development Budget (Expenditure) by Major Projects ($m)

Major Project	Budget Estimate FY2024/25 ($m)	Projection FY2025/26 ($m)	Projection FY2026/27 ($m)
Nuku'alofa Ports Upgrade Project - Queen Salote Wharf	43.8	3.3	-
Catastrophe Deferred Drawdown	30.0	10.0	10.0
Revolving Fund	35.7	23.0	23.2
Wind Power Station	28.0	0.5	0.3
NZ International Development Cooperation Contribution	26.4	2.3	1.1
THS Sport Complex	25.0	-	-
Tonga Climate Resilience Transport Project- TCRTP	22.2	23.1	27.5
Tonga Safe & Resilient Schools Project	19.7	32.4	29.4
NNUP and Generator Set	15.0	-	-
Upgrading Royal Tombs(Mala'ekula)	15.0	3.5	-
Contingency Disaster Financing	10.0	10.0	1.0
Parliament New Building	10.0	40.0	10.0
Pacific Resilient Energy Project(PREP)	9.2	-	-
BS: Fiscal Support For Economic Resilience	8.0	-	-
Climate Resilient Water & Sanitation (CCTF)	8.0	6.0	2.0
Vavau Hospital Reconstruction	8.0	5.0	10.0
Tonga National Musuem	6.7	5.1	-
Queen Salote Nursing School(BS)	6.0	-	-
Tonga Hawaiki branch system project	5.0	10.0	10.0

Note: Revolving Fund for FY 2025 consists of $30.8m, Government of Tonga Funds and $4.9m Overseas Donor Funds. FY 2026 and FY 2027 are Government of Tonga Funds only

Source: Ministry of Finance (MOF)

Annex IV provides the details.

7. CONCLUSION

The theme for the FY 2025 Budget is ***"Building the foundations for sector-driven economic growth and sustainability".***

This represents the call for stronger partnership through accelerating investment to improve inclusive economic growth. This is a pertinent step towards achieving sustainable development, macro-economic stability and improve the living standard for all Tongan citizens.

The Government's fiscal deficit position in FY 2025 will prioritize funding options from the drawdown of the cashflow and new domestic bond. Targeted spending will continue to focus on the **three thematic areas**: *(i) Priority Activities to build Resilience against Climate Change, multi-dimensional poverty (24.0 percent of total households) and illicit drugs (ii) Priority Activities to improve the quality of services and affordability including improvements in quality education and healthcare and (iii) Priority Activities to promote progressive economic growth, focusing on increase support towards investment initiatives in key economic sectors*.

In ensuring that these thematic areas are well resourced in the medium-term, this budget is increase by $114.9m (both cash and in-kind) from the original estimates approved for the FY 2024, which includes the $9.1m allocated to assist the Government's growth initiatives (the PPP) in the key sectors; namely, agriculture, fisheries, tourism, and manufacturing.

The economic growth outlook is positive for the medium term, assisted by continued government efforts to implement the planned infrastructure projects, scaling up investment on growth Public Private Partnership (PPP) initiatives and improving macroeconomic stability. On the fiscal front, Government remains committed towards implementing the proposed fiscal measures and to improve revenue collections and control expenditure measures to improve macroeconomic sustainability, ensure sustainable and equitable growth.

Equally important, this budget has allocated funds to cater for an additional 5.0 percent Cost of Living allowance (COLA), considering the impact of inflation and increase cost of living. A continued effort to implement the overall government reform program is needed to ensure improve efficiency and effectiveness in service delivery.

We acknowledge the ongoing support by our development partners and our Tongan diaspora overseas towards our development. We hope for continuing support with our plans and initiatives going forward.

The respective ministries are strongly encouraged to prioritize spending and work in collaboration with all key stakeholders to deliver the Government development plans for the betterment and welfare of all Tongans.

ANNEXES

ANNEX I: MACROECONOMIC AND FISCAL OUTCOMES AND OUTLOOK

8.1 Status of the economy and outlook

Global Economic Outlook

The global economic recovery faces challenges amidst Russia's invasion of Ukraine, and a cost-of-living crisis. Contrary to expectations, inflation has been rapidly declining since its 2022 peak, attributed to favourable supply-side developments and central banks' tightening, anchoring inflation expectations. However, the anticipated dampening effect on 2024 growth due to high interest rates and fiscal support withdrawal remains a concern.

The International Monetary Fund projects a modest global growth trajectory, estimating 3.1 percent in 2023 and 2024, with a slight uptick to 3.2 percent in 2025. Major economies, including the United States, exceeded growth expectations in late 2023, driven by robust spending and supply-side expansion. The euro area, however, faced subdued growth because of weak consumer sentiment and energy prices. Low-income economies experienced output losses with elevated borrowing costs.

Advanced economies are expected to witness a marginal decline in growth from 1.6 percent in 2023 to 1.5 percent in 2024, rebounding to 1.8 percent in 2025. The United States is projected to dip from 2.5 percent in 2023 to 2.1 percent in 2024 and further to 1.7 percent in 2025. The euro area is expected to recover from 0.5 percent in 2023 to 0.9 percent in 2024 and 1.7 percent in 2025. Emerging market and developing economies anticipate 4.1 percent overall growth in 2024, increasing to 4.2 percent in 2025. In Emerging and Developing Asia, growth is expected to decline from 5.4 percent in 2023 to 5.2 percent in 2024 and further to 4.8 percent in 2025, with China making a substantial contribution.

Global inflation has receded faster than projected, approaching pre-pandemic averages. Contributing factors include positive global supply developments, waning energy price shocks, easing labour market tightness, and contained wage growth with decreased near-term inflation expectations in major economies.

Regional Economic Outlook

Pacific economies are currently experiencing growth fuelled by revived tourism and increased infrastructure investment. Projections indicate a growth rate of 3.5 percent in 2023 and 2.9 percent in 2024 for the subregion, primarily driven by substantial growth in Fiji. Papua New Guinea, the largest economy, is expected to see subdued growth of 2.0 percent in 2023, with challenges related to foreign exchange shortages, but a stable forecast of 2.6 percent in 2024.

Countries like the Cook Islands, Fiji, and Samoa are witnessing a robust resurgence in tourism, while others benefit from renewed public construction activities because of the easing of mobility restrictions. However, potential constraints on labour supply and tourism facilities pose risks to growth. Vulnerability to disasters and climate events remain a concern for both growth and inflation in the Pacific region.

In the Australian economy, growth slowed to 2.1 percent in Q2 2023, driven by public infrastructure spending and private spending on durable goods. Economic activity is expected to remain subdued for the rest of 2023 due to higher interest rates, cost-of-living pressures, and capacity constraints. The GDP is forecasted to grow by 1.7 percent in 2023 and 1.4 percent in 2024.

In New Zealand, Q2 2023 growth is projected at 0.9 percent, with full-year growth expected to be 1.2 percent for 2023 and 1.5 percent for 2024. The outlook is negatively affected by lower external demand, high-interest rates, and a declining share of government spending. Looking ahead to FY 2025, economic activity in the Australian and New Zealand markets is expected to stabilize, with GDP growth projected at more modest rates. The South Pacific's tourism recovery is expected to continue, while the North Pacific's uneven recovery may see improvements in line with global travel trends, benefiting recovery of the Tonga's tourism industry.

Domestic Economy

The pathway of economic growth within the domestic economy is largely contingent upon the private sector's capacity to stimulate economic activity, coupled with government efforts to enhance strategic capital investment to support the key economic sectors. In the preceding two fiscal years, FY 2022 witnessed an expected decline in growth by -0.6 percent, followed by a subsequent rebound of 2.8 percent in FY 2023. This trend marks a turning point in Tonga's economic landscape, showing a gradual recovery from the adverse impacts of COVID-19 and HTHH volcanic eruption coinciding with re-opening of our borders. The reopening of our borders has led to the rejuvenation of the wholesale and retail sub-sectors, as well as tourism-related activities following the disaster. This resurgence has been driven by increasing remittances and a growing demand for imports, restaurants, and related industries, which are recovering from a lower base.

The expected economic growth for the current fiscal year FY 2024 stands at 2.9 percent. This growth primarily reflects the recovery fuelled by the improvement in the construction sub-sector and service sector. Increased remittances have contributed to enhanced fiscal stability in the economy as the economy normalises following the twin crisis of the pandemic and the HTHH disaster in 2022. New projects are anticipated to be implemented, including the construction of the Safer School Infrastructure Project, Wind Power station and the planned Public Private Partnership (PPP) investment projects.

Although global inflation has decreased more rapidly than anticipated, the ongoing global conflicts such as the Russian invasions of Ukraine and the Gaza crisis, may still increase volatility in global commodity prices, inevitably affecting the domestic economy. The growing labour mobility has posed risks to Tonga’s domestic labour supply. Coupled with the rising cost of living, driven by domestic inflation, both factors pose threats to domestic growth, requiring careful management. In addition, Tonga’s extreme vulnerabilities to natural disasters, adverse effects of climate change, and negative external shocks persist as risks to both economic growth and inflationary pressures in Tonga.

Outlook for Tonga

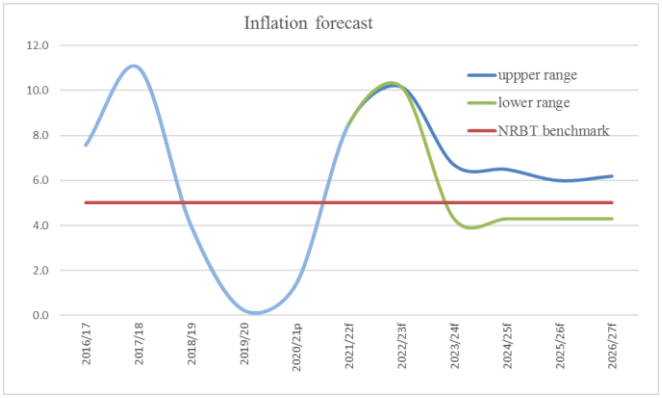
Tonga's medium-term economic growth is projected to average at 2.8 percent, driven by the ongoing recovery efforts and the anticipated implementation of development projects in subsequent years. However, a noteworthy risk factor for government activities emerged from constrained fiscal space because of significant ongoing debt repayment obligations, alongside the implementation of the proposed Cost of Living allowance (COLA) and other approved responses towards the petitions from doctors and nurses. According to the Asian Development Bank Pacific Economic Monitor, the Pacific economies are set for improved growth, driven by a revival of tourism and infrastructure investments. Tonga's domestic economy stands to benefit from improvement in regional economic growth, especially through the influx of tourists and investments. Despite this, the constraints on labour supply and the lack of tourism accommodations pose as limiting factors to leverage Tonga’s economic growth. It will also depend on the economic conditions of Australia and New Zealand, given the importance these countries pose for development aid and remittances from the Tongan diaspora.

On the monetary front, the financial sector remains stable. However, an important consideration is the existence of excess liquidity within the financial system. To fully leverage this surplus, there is a need for increased focus on implementing development projects and investments that can effectively absorb this excess liquidity. While the financial sector's stability provides a solid foundation, the ultimate success of utilizing this liquidity rests on the private sector's ability to absorb and channel these resources strategically. Encouraging and facilitating private sector participation in viable projects becomes instrumental in optimizing the positive impact of the current financial sector conditions on overall economic development. In summary, the nation confronts notable risks concerning the global geopolitical events, debt obligations, and vulnerabilities to climate change and external shocks. It is imperative for pertinent stakeholders to vigilantly monitor these factors and enact requisite measures to alleviate their impact on the domestic economy.

Inflation forecast

The inflation outlook remains uncertain amid the current global economic landscape, the ongoing global geopolitical tensions, and the unpredictability of domestic inflation on overall inflation rate since September 2022 has become a notable concern. Present data, alongside analysts' projections, suggests inflation ranging from 4.3 percent to 6.7 percent by the fiscal year-end. However, inflation dynamics will remain closely tied to global energy price fluctuations, with susceptibility to major global invasions and crisis.

A-Figure 1: Inflation Forecast

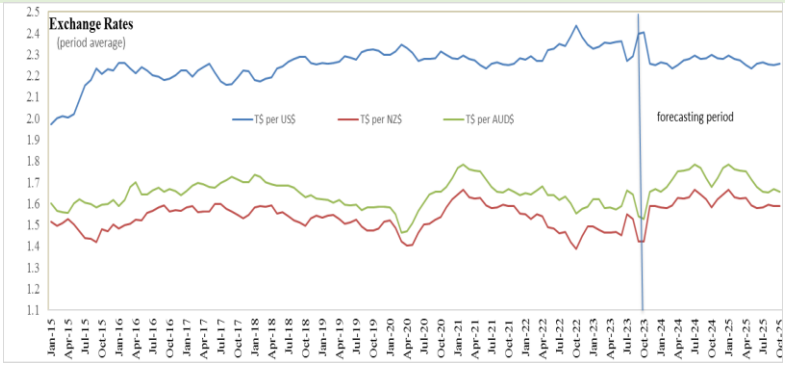


Source: Ministry of Finance (MOF)

Exchange rate forecast

The forthcoming exchange rate forecast depends on several factors, including expected loan repayments to China, the demand for Tongan pa'anga, Tonga trade dynamics, global economic conditions, our inflation rate and GDP growth projected. The future economic growth rates of New Zealand, Australia, and the United States, will directly impact the development aid and remittances activities significantly influence the future exchange rate fluctuations. Such fluctuation influences the purchasing power of remittances received, the standard of living and economic well-being of families and communities reliant on these funds, along with the investment decisions. Therefore, a stable and favourable exchange rate regime is crucial for fostering economic resilience and facilitating sustainable development within the Tongan diaspora community.

A-Figure 2: Exchange Rate Forecast



Source: Ministry of Finance (MOF)

Growth projections by key sectors[18]

Primary Sector: (17.5 percent of GDP) [19]

In FY 2024, the primary sector is expected to experience a negative growth rate of -0.8 percent, a decline from the previously recorded positive growth of 0.2 percent in FY 2023. This was attributed to reductions in the overall volume of exports from both agriculture and fisheries. Specifically, the decline in the agriculture sector is driven by reduced production in squash and fruits, including watermelon and coconut. Similarly, in the fisheries sector, the drop is influenced by decreased output in tuna and seaweed.

The agricultural sub-sector continues to play a pivotal role as the primary contributor, representing 15.3 percentage points of the sector's GDP. Looking ahead, the sector projects moderate growth, averaging 1.1 percent, driven by a strategic emphasis on food security, recovery, and increased investment through public-

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

19 *Primary Sector* comprised of 2 subsectors: Agriculture & forestry sector and Fisheries subsector.

private partnerships (PPP) in collaboration with the government. There is a concerted effort to enhance import substitution, fostering domestic production, and simultaneously boosting export volumes.

The sector remains vulnerable to natural disaster, climate change and external shocks, as usual. Yet its productivity is projected to face additional challenges due to the escalating issues of labour mobility currently experienced. In response, the sector seeks sustained collaboration with both multilateral and bilateral partners to unlock and maximize its full potential.

Agriculture and Forestry: The sub-sector anticipated a negative growth rate of -0.1 percent, marking a continued decline from the negative growth rate of -1.6 percent observed in the preceding year. This contraction is attributed to reduced volumes of exported squash, watermelon (stemming from shipping and drought issue), and coconut. In the medium term, the sub-sector is projected to grow at an average of 1.2 percent, attributing to the continued sector development programs, including the planned implementation of the *Tonga Circular economy project* (PPP).

Fisheries: The sub-sector growth is projected to decline sharply to a negative rate of -5.8 percent in FY 2024, compared to a forecast growth of 13.7 percent in FY 2023. This was due to expected reduction in the export of tuna and seaweed. Despite the border restrictions being lifted, Tonga has not resumed the export of fresh snapper as seen in the past, as local sales are preferred by fishermen over exports. Tuna fishing remains the primary driver of the sector's growth, albeit GDP is limited to catches by domestic vessels based on the Tonga Statistics Department definitions. The government is hoping to enhance the domestication of the tuna fleet in Tonga. In the medium term, the sector is forecasted to grow at an average rate of 0.7 percent, attributing to the continued sector development programs, including the planned new Public Private Partnership (PPP), to establish a fishery loin facility in Tonga.

Industrial Sector (13.9 percent of GDP)

The industrial sector remains the primary driver of growth, despite both a challenge and a crucial contribution to economic recovery. A slight increase in sector growth is anticipated, with a positive 0.1 percent estimated for FY 2023, marking a noteworthy turnaround in FY 2024 with a projected growth rate of 6.2 percent and further escalating to 6.7 percent in FY 2025. This positive trajectory is attributed to the continuity of ongoing economic activities particularly in the construction sector.

The growth in the industrial sector is prominently led by the construction sub-sectors, including mining & quarrying, electricity, and water. Conversely, the manufacturing sub-sector reflects a parallel trend seen in businesses impacted by the pandemic. Despite these challenges, the medium-term outlook is promising, with a growth forecast averaging 5.6 percent. The positive projection is primarily attributed to the expected implementation of projects and activities in the coming years.

Construction retains its pivotal role as the primary driver of the industrial sector and the overall economic growth, exerting a substantial influence on the expansion of other segments within the economy. The sector showcased a remarkable improvement, transitioning from a negative -1.4 percent in FY 2023 to a growth of 13.6 percent in FY 2024. This positive shift can be attributed to the progression of ongoing projects, including the extension of Queen Salote Wharf, HTHH reconstruction, Tonga High School complex, and increased private construction. FY 2025 is anticipated to see a further growth spike of 12.7 percent, propelled by the ongoing projects and the execution of large development projects such as the Fanga'uta bridge.

In the medium term, the industrial sector is poised for enhancement, boasting an average growth rate of 8.6 percent. This positive trajectory is supported by major infrastructure projects in the pipeline, such as the new Parliament House, Courts Complex, Fangauta Bridge, Tonga National Museum, Vava'u Hospital, Queen Salote Nursing, Tapanekale project, Loloma Resort, and

additional growth-inducing ventures like the Public Private Partnership investment projects, including Tonga Circular Economy, Tonga Flour Mill, Multi-purpose facility and the Fua'amotu Resort. The Government has thoroughly reviewed the National Infrastructure Investment Plan II (NIIP II) to reflect the current infrastructure development priorities.

Mining and Quarrying, as a sub-sector, is anticipated to follow a parallel trajectory with construction activities.

Electricity and Water Supply experienced positive growth of 2.3 percent in FY 2023, improving to 2.4 percent in FY 2024 and projecting a further increase to 4.0 percent in FY 2025, in tandem with the growth observed in construction activities. The outlook suggests an upward trend, with an average growth rate of 5.6 percent, fuelled by expected expansion in services and heightened construction activities.

Manufacturing, while seeing a modest growth of 0.2 percent in both FY 2023 and FY 2024, the sector is expected to show similar growth in FY 2025 with a growth rate of 0.5 percent. The medium-term outlook remains promising, reflecting new initiatives from Public-Private Partnerships in manufacturing, including *flour and feed mill* production in Tonga. Increased demand for construction materials, water, bread, and other inputs is also contributing to the positive outlook for the manufacturing sector**.**

Services Sector[20]: (50.3 percent of GDP)

The Services Sector, constituting a substantial 50.3 percent of the GDP, has demonstrated resilience despite facing substantial declines from FY 2020 to FY 2022, due to the dual shocks of the pandemic and the HTHH disaster. The sector showed a rebound in FY 2023, propelled by the re-opening of borders and normalized service activities, with a growth forecasted of 4.7 percent. The growth is forecasted to continue in FY 2024, with the service sector expected to grow by 4.1 percent, given the continued economic growth of sub-sectors such as wholesale, retail and tourism. Looking ahead, FY 2025 is anticipated to grow by 3.4 percent, particularly influenced by a favourable external environment, steady remittances, and strong tourism growth. Despite this, external factors such as global supply side shocks and natural disasters remain risks in this otherwise optimistic outlook.

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

Wholesale and Retail: The Wholesale and Retail sub-sector presents a positive economic outlook, projected to grow at an average growth of 3.4 percent in FY 2024. This is due to the steady rise in remittances, along with improvements in public sector expenditure on COLA, leading to increased import growth. Looking ahead to FY 2025, the sector is expected to grow by 3.0 percent. However, external events like the Russia-Ukraine and Gaza crisis may impact global logistics costs, influencing higher costs for imports of food and energy.

Accommodation and Food Services sub-sector, primarily driven by tourism, experienced an extraordinary resurgence in FY 2023, following the re-opening of borders. Projections for FY 2024 and FY 2025 indicate continued growth, with anticipated rates of 115.8 percent and 35.0 percent, respectively, fuelled by a rebound in tourist arrivals from cruise ships. The sector is poised for a significant uptick in FY 2025, aligning with a broader resurgence in the Pacific region, and initiatives to attract more yachts to the country. Notably, Tonga will host few regional meetings including the Pacific Island Leaders Forum in August 2024, adding an extra layer of demand to this dynamic sub-sector. Government-led endeavours, including new Public-Private Partnership (PPP) projects such as the Fua'amotu Resort and the "build back better" initiative championed by the

[20] *Services or Tertiary Sector* comprised of Wholesale & Retail Trade, Transport & Storage, Accommodation & food services (Tourism industry), Information & Communication, Public admin & Defence, Financial and insurance service activities, Health and social activities, Education, and others.

Ministry of Tourism, will play pivotal roles in supporting and amplifying the growth trend for this crucial sector.

Health and Social Activities is poised for a growth of 4.0 percent in FY 2024 and an equivalent growth projection for FY 2025. Health sector, along with the education sector, stand as the two main sub-sectors under the social sector and has normally allocated the largest share of the recurrent budget. This underscores the government's longstanding commitment to prioritize and invest in these two sub-sectors, considering its important to the human development of the nation. The government has demonstrated a proactive stance in responding to the learnings through the COVID-19 pandemic, extending its focus beyond immediate scenarios to emphasize disaster preparedness in a broader context. Noteworthy improvements in the health sector include the implementation of the Tonga National Strategy for Non-Communicable Disease (NCD) Prevention (2021-2025) and strategic upgrades to critical health infrastructures such as the Queen Salote School of Nursing, Vava'u hospital, and the planned Dialysis Unit under the Ministry of Health (MOH). These enhancements align with ongoing health programs targeting non-communicable diseases (NCDs), communicable diseases, and other health challenges, contributing to the sector's overall growth. The government's dedicated efforts to address turnover issues within the skilled nursing workforce further solidify its commitment to fostering a resilient and thriving healthcare sector in Tonga.

The Education sector in Tonga is poised for continuous growth, with a projected increase of 3.3 percent in both FY 2024 and FY 2025. This positive trend is underpinned by strategic initiatives aimed at enhancing the overall educational landscape. A significant milestone is the establishment of the Tonga National University (TNU), marking a pivotal moment in advancing tertiary education within the country. The expansion of Early Childhood Educations (ECEs) coverage further contributes to this growth by laying a strong foundation for educational development from an early age. The sector's commitment towards providing quality education including the ongoing implementation of current programs and activities such as the SET Project, review curriculum, teacher registration, digital reforms to aid educational delivery mode and the implementation of the recent initiative through the provision of the primary school including ECEs' breakfast to support students' well-being.

Transport and Storage Sector: Aligned with advancements in the secondary sector GDP growth, the Transport and Storage sector exhibits a positive outlook. A projected growth of 2.0 percent in FY 2024 and 2.2 percent in FY 2025 is driven by increased numbers of travellers since the border reopening, intensified domestic and international airline focus, and elevated sea transport sector activities. The sector emerges as a key player in supporting economic activities through enhanced connectivity.

Public Administration and Defence: The Public Administration and Defence sector anticipates a growth of 1.2 percent in FY 2024 and 1.3 percent in FY 2025, driven by the increasing size of the public service and wage bill, which is one of the fiscal anchors that is being monitored and controlled.

- *Public Private Partnership (PPP):* Government has mobilized focus on leveraging partnerships with the private sector to unlock the potential to stimulate growth. This is through increase investments to $9.1m in FY2025. This is to finance identified potential PPP projects under the key economic sectors from $8.0m in FY 2024, is summarized in *A-Table 1* below.

A. Summary of the Utilization of PPP Allocation

A- Table 1: PPP Allocation, utilization, remaining balance as of the 11th of April 2024

Sector	Actual 2023/24 ($m)	Commitment ($m)
Agriculture	0.07	1.08
Fisheries	0.51	1.00
Construction	0.07	0.31
Manufacturing	0.32	0.43
Tourism	0.03	4.01
Private Sector Initiatives		0.17
	1.0	**7.0**
Total Actual		1.0
Total Commitment		7.0
Total Budget		8.0
Remaining Balance from the Budget		-

Source: Ministry of Finance (MOF)

PPP Allocation

The balance to date, as in *A-Table 1*, reflecting the remaining balance: (i) **total actual of** $1.0m and the **total commitment** of $7.0m out of the approved budget of **$8.0m.**

PPP Actual and Commitment as to date by Sector:

1. Agriculture sector - $1.15m ($0.07m actual and $1.08m commitment)
2. Fisheries sector - $1.51m ($0.51m actual and $1m commitment)
3. Construction sector - $0.38m ($0.07m actual and $0.1m commitment)
4. Manufacturing sector - $0.75m ($0.32m actual and $0.43m commitment)3
5. Tourism sector - $4.04m (Actual $0.03m and $4.01m commitment which includes Handicraft ($1.01m and Tourism Accommodation Housing $3.0m)
6. Private Sector Initiatives - $0.17m (new initiatives)

Total PPP Actual Balance as to date (with commitment): $8.0 million

Expected Benefits and Contributions to Growth

The projects funded through Tonga's Public Private Partnership (PPP), especially in agriculture and fisheries, have the potential to boost the country's economy. By supporting initiatives like buying farming equipment and improving fishery facilities, these projects can increase productivity and create jobs. As a result, the overall impact on Tonga's Gross Domestic Product (GDP) is likely to be positive. However, the actual influence will depend on how well these projects are implemented and their outcomes in terms of economic growth.

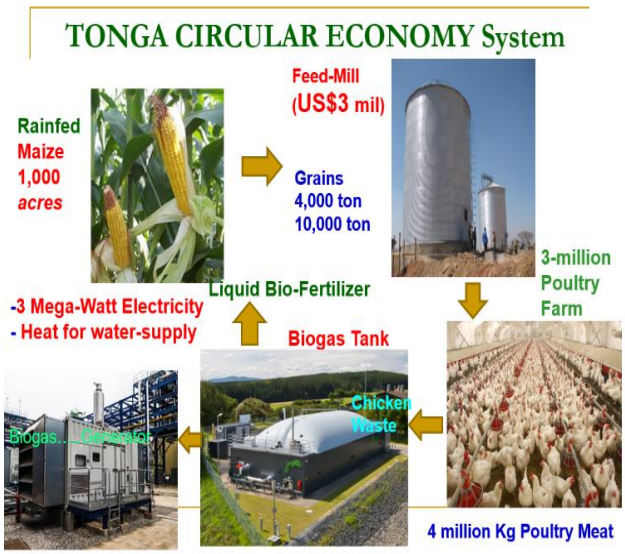
In view of what has been supported under the PPP allocations, the majority were recovery support, considering the impact of the pandemic and HTHH eruption on the economy. These add to the other Government recovery support programs such as the Government House Reconstruction (focusing on damaged residential housing), financial support towards the tourism operators and key sectors such as the agriculture and fishery support. The latest GDP forecast reflects signs of improvement in key economic sectors, where partly because of the government intervention and support programs.

To further boost growth in key sectors, the government has reviewed several significant PPP investments to provide relevant support, including:

a) Fua'amotu Luxury Five Star Resort
b) Leiola Plaza
c) Tonga Flour Mill
d) Tonga Circular Economy System (TCES).

e) Tuna Loining Facility

1. Tonga Circular Economy System (TCES) – Agriculture Sector



- This PPP initiative is a joint venture by the Ministry of Agriculture and the private sector businesses under the agricultural sector. The project is in three phases; *i. Energy Phase* has progress with the investment of USD70,000 by the Tonga Power Electric Power Board to a German company "FeW Biogases System Biogas Supplier-Tigerlab" to conduct research step on evaluating the biogas produce from local livestock waste and green vegetation. This work is to be implemented from February to December 2024. *Ii. Cropping Phase* is with Ministry of Agriculture, Food and Forestry (MAFF) and NISHI company conducting research evaluating Maize grain and green vegetation yield in Tongatapu, starting between March – June 2024. i*ii. Feedmill and the Integrated boiler production phase* is to store 10,000 tons of maize grains (US$3.0m). The government's partnership toward this project is to cover the cost of the feedmill.

- The intention is to engage potential farmers to invest in the production of 10,000tons of maize grains and farmers to invest in the production of boilers for poultry meat, hence the seeking of the government investment to build the feed-mill.

- *Expected Benefits:* The project is anticipated to have financial, economic, and social impact on the economy. Within five years of full operation, a significant saving on fuel for electricity is replaced by biogas for electricity generation. The imports of poultry meat (about 4,000 tons) annually will be replaced, at least by the year 2030 of the project. Last but not least, a group of farmers are expected to earn cash income from the farming of the maize crop and engage in the project

  Ownership: TCES project will be owned by a shareholding structured company with the government as the main shareholder.

2. Tuna Loining Facility – Fishery sector

- The 'Tuna Loining Facility' Fisheries PPP proposal aims to improve the export of tuna by addressing challenges faced by the tuna fishery industry with a start-up cost of $3.0m in FY 2025. The proposal is to conduct feasibility studies, market research, and upgrade of existing infrastructure, procurement of machinery and packaging materials and other administrative costs.



- At present, Tonga primarily exports whole fresh and frozen tuna products to various foreign markets. To enhance the value of these exports and foster domestic distribution. This proposal is a joint venture by the Ministry of Fisheries and the private sector led by the Atlantis Fishing Company, explore the establishment of tuna loin process facility. That includes diversifying tuna catches into fillet and producing of a local tin fish.
- *Expected Benefits*: The project is expected to provide value-added opportunities to tuna fisheries products, thereby increasing the export contribution to Tonga's GDP and improving returns from the export of value-added tuna products. It seeks to establish a niche market for current and future investors in the tuna fishery sub-sector, increase employment opportunities for women, and ultimately enhance livelihoods, food security, and living standards.

3. Fua'amotu Luxury Five Star Resort – Tourism sector

- The project, intends to construct a 5-star luxury hotel at Fua'amotu, estimated at a total cost of around **US$57.0m.**



- The proposed funding support for the project consisting of the followings: (i) Tonga's Retirement Fund Board (RFB) US$12.5m; (ii) the Warwick Hotels and Resorts (WHR) US$2.5m; (iii) Australian Infrastructure Financing Facility for the Pacific (AIFFP) US$32.0m; and (iv) Pacific Finance and Investment Group (PFIG) US$5.0m, and the GOT US$5.0m plus in-kind support estimated of up to US$5.0m as equity investment for the government.
- *Expected Benefits*: The project is expected to benefit the Tongan economy through increase employment, domestic revenue, boost the tourism sector development through improve tourist earnings, arrivals, also contributing to other sectors such as fisheries and agriculture.

4. Tonga Flour Mill (Cowley & Sons) – Manufacturing sector

- This proposal seeks to construct a flour mill (estimated cost of $15.0m) intending to produce flour locally as part of the initiatives to promote domestic production and import substitution. This new initiative is supported by the government considering the effort to reduce imports, expansion of goods that are locally manufactured and support of local manufactures.



- Government support and partnership through the provision of a tax exemption of machineries, building materials during construction and other relevant support that may be required to support the local production. At this stage, Ministry of Revenue and Custom (MORC) is liaising with the proposer on the details of the requested materials/equipment to be exempted.
- *Expected Benefits:* The project is expected to develop the sector and improve the overall economic growth through increasing local production, agricultural support, employment creation, local trade and increasing investment within the manufacturing industry.

5. Tourism Industry Accommodations Proposal – Tourism Sector

- The industry accommodation proposal focuses on rebuilding the tourism sector, aiming to address critical challenges, promote sustainable tourism, and prioritize the urgent need for quality accommodations to revive and grow the industry. It emphasizes the importance of collaboration, quality, and strategic planning to achieve long-term success.
- The target is to build additional prefab houses, approximately 200 houses in 10 locations in Tongatapu, to provide sufficient accommodation for participants in planned Pacific Leaders meetings to be hosted in Tonga in August 2024.
- The total estimated cost of building 200 prefab houses is $13.8m, with an estimated cost of $69,101 for each house.
- *Expected Benefit:* The project expects an investment return of $15.2m over a 5-year payback period with a 10.0 percent interest rate.
- The implementation of the project is expected to be taken during FY 2024 considering the target to complete the reconstruction before leaders meeting in August 2024.



6. Pilot Apprenticeship Program in the Cookeries sub-sector - Business Sector

- This proposal is an initiative to be jointly implemented by the Ministry of Trade and Economic Development (MTED) and ‘Ahopanilolo Technical Institute (ATI). The proposal is to start or pilot an apprenticeship program in Tonga, aiming to bridge the gap between education and industry, offering a systematic approach to address skills shortages and create opportunities for youth employment in Tonga's labor market.
- The pilot phase is planning to undertake in FY 2024 and continue in the medium term if the pilot phase is successful. The arrangement includes payment of 60.0 percent of apprentices wages during a one-year placement of ‘Ahopanilolo Technical Institute (ATI) certificate 4 level students in selected businesses. A Grant Agreement will be developed to facilitate two payments of the 60.0 percent grant, with the remaining 40.0 percent to be covered by the business/organization.
- *Expected Benefits:* The Government has supported this pilot initiative, considering the expected benefits towards reduction of youth unemployment, development of sector through more interested youth in the sub-sector, skills and capacity development in the sector and development towards other related sectors like tourism sector (restaurants, hotel).



A- Table 2: Medium Term Ongoing and Pipeline Projects

Medium Term Projects

The following is a list of projects approved for implementation over the current to medium term which shall be incorporated in the forward budget estimates 1/

Health:

1) Expansion of Nursing School and Ministry for Health workforce.
2) Assessment of upgrading the hospitals in Vava'u and Tongatapu.
3) Review allowances for doctors and nurses.
4) Review commitments for the rebuilding of Vaiola Hospital.

Education:

5) Confirm international recognition of Tongan school qualifications.
6) Assess revised allocation for education of the children and youths.
7) Review of education staff remuneration.

Economy and Development:

8) Prepare Strategic Plan for Nuku'alofa.
9) Assess viability of programmes to enhancing skills for young school leavers.
10) Assess upgrading the airports at Niuatoputapu and Niufo'ou.
11) Assess enhancing local production of food.
12) Assess increasing fuel storage capacity.
13) Assess policy to coordinate scaling up projects to benefit from economies of scale.
14) Prepare a strategic plan for 'Eua to incorporate developments of (a) Airport; (b) Harbour (c) Bridge (d) Water resources (e) Power (Electricity) (f) Emergency radio station tower.
15) Develop of the Outer Island Region (Vava'u, Ha'apai, 'Eua, and the two Niuas).
16) Develop of policies to prioritize the private sector.
17) Construct a multipurpose facility to facilitate exports/trade of local products.
18) Scale up funding for activities to fight illicit drugs.
19) Implement a programme to maintain overseas missions in San Francisco and New York.

1/ Note that some of the projects are on-going while others are being developed for confirmed funding prior to implementation

Source: Ministry of Finance (MOF)

A- Table 3: Budget Themes FY 2025 to FY 2029 – Key Economic Sectors Initiatives

Budget Themes 2024-25 to 2028-2029
Overall Theme: Unleashing the Potential of Productive Sectors for Economic Growth and Sustainability

This medium-term budget theme aims to drive economic development and diversification by harnessing the transformative power of agriculture, fisheries, and tourism.

Agriculture

2024-25: Focus on Vanilla Cultivation
- Establish large-scale vanilla plantations to optimize economies of scale and increase returns.

2025-26: Value-Added Processing
- Invest in infrastructure and equipment to process vanilla into high-value products for export.

2026-27: Market Expansion
- Promote and market Tongan vanilla internationally to establish new markets and increase demand.

2027-28: Sustainable Practices
- Implement sustainable farming methods to ensure environmental protection and long-term productivity.

2028-29: Diversification to kava exports and Innovation and rural development
- Explore kava as an alternative cash crop and innovative agricultural practices to diversify the sector.
- Allocate funds to support rural communities involved in agricultural production and value-chain activities.

Fisheries

2024-25: Establishment of Loining Factory
- Construct a modern loining factory to process tuna locally and create value within the domestic economy.

2025-26: Capacity Building
- Train and upskill fishermen and factory workers to enhance productivity and safety standards.

2026-27: Market Development
- Identify and penetrate new markets for high-quality seafood products from Tonga.

2027-28: Sustainable Fishing Practices
- Implement responsible fishing practices to ensure the long-term sustainability of fisheries resources.

2028-29: Value-Added Products and regional cooperation
- Explore the development of value-added seafood products such as canned tuna and frozen fillets.
- Foster partnerships with regional organizations to enhance fisheries research and management.

Tourism

2024-25: Investment in High-Quality Accommodation
- Offer incentives for the construction of new hotels and resorts that meet international standards.

2025-26: Destination Marketing
- Implement marketing campaigns to promote Tonga as a unique and desirable tourist destination.

2026-27: Sustainable Tourism
- Develop and enforce regulations to ensure environmentally and culturally responsible tourism practices.

2027-28: Cultural Heritage Promotion
- Enhance support for the preservation and promotion of Tongan cultural heritage as a key tourism draw.

2028-29: Niche Tourism and Visitor Experience
- Identify and develop specialized tourism products such as ecotourism and adventure travel.
- Improve infrastructure and services to enhance the visitor experience and encourage repeat tourism.

Source: Ministry of Finance (MOF)

8.2 Fiscal Objectives and Targets

In the medium term, the government aims to prioritize three (3) key objectives in Public Financial Management (PFM):

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

PFM Reforms 2024-2025

These are the two (2) main activities carried out on the PFM front. The following summarized the work in progress on the two activities to date:

3. Modernization of the PFM legislations

His Majesty Cabinet on the 7th of February 2020 (CD No. 112) approved for the legislative review of all financial legislation and regulations for public funds by the Ministry of Finance.

- A PFM Draft Bill was formulated in 2021 with technical support by PFTAC; completed the task in June 2021.
- A draft PFM (Amendment) Bill, with technical support by the government of Australia (DFAT), was presented to Cabinet in April 2022, which was deferred for further consultations by Cabinet (CD No.187 of 6th April 2022).
- To complete the legislative review mandated by Cabinet in 2020, further technical support by DFAT was secured to required tasks. In summary:
    - A comprehensive draft PFM bill was completed and submitted to Cabinet in March 2023. The submission was further deferred in considering offloading some of the legal texts in the Bill to the PFM Regulations.
    - Revisions were accordingly carried out to offload the contents in the Bill that should be included in the PFM Regulations and the Treasury Instructions; and to provide the quality assurance across the legal text. The legal texts were also compared with relevant contents in the PFM legislations of Fiji, Samoa, Vanuatu and New Zealand.
    - The revised legal text was then sent out in August 2023 for comments from DFAT, MFAT, ADB, World Bank, PFTAC, Civil Society Forum of Tonga, Chamber of Commerce, Retirement Fund Boards, National Reserve Bank of Tonga, Public Service Commission, all Heads of Government Ministries and former Finance Ministers. The response rate was close to 100.0 percent and all comments were incorporated into the legal texts.
    - Explanatory Notes of the Legal Texts were drafted to accompany the PFM Bill and submitted to the Attorney General's Office on 12th September 2023.
    - The Bill was tabled to the Law Drafting Committee on 23rd and 24th October and was considered by the Cabinet Law Committee on the 25th of October 2023. The Bill was approved by the Law Committee on 25th October for re-submission back to Cabinet.
    - Cabinet approved the PFM Bill 2023 on the 2nd of November 2023.
    - Tongan translations are completed and ready to be tabled to Parliament in early 2024.
- The formulation of specific PFM Regulations, and updating of the Treasury Instructions, are being carried out to align with the new PFM Bill 2023.

4. Formulation of the PFM Reform Roadmap and Rolling Action Plan 2024-2029

The Ministry of Finance continues to implement the current PFM Action Plan 2020, formulated under technical support from the PFTAC. It has 136 planned actions of which approximately 60.0 percent of these have been implemented and the remaining 40.0 percent is ongoing.

In the meantime, with the assistance of DFAT, a new PFM Reform Roadmap & Rolling Action Plan 2024-2029 is formulated to address the main weaknesses that were identified in the two PEFA Assessments on Tonga's PFM system in 2020 (i.e. the Agile Assessment 2020; and the Gender Responsive Budgeting Assessment 2020). A reform and action plan matrix has been formulated as the basis of the PFM Reform Roadmap. It consists of 46 reforms and 162 planned actions to address 70 issues (those with poor scores) as identified by the 2020 PEFA Assessments. It also includes the ongoing reforms and planned actions from the current PFM Action Plan 2020.

Spanning across the PFM cycle, the proposed PFM reforms and actions in the matrix are to improve:

i. the reliability of the government budget (i.e. realistic and implemented as authorized by Parliament). This includes measures to improve aid coordination, decentralization of financial responsibilities to make line ministries more accountable, minimizing the misuse of contingency funds, aligning budget documentation with the public accounts),
ii. the transparency of public finances (this includes measures to harmonize the budget structure, revise the chart of accounts, improve the documentation of the budget, improve public access to the budget documents),
iii. the management of government assets and liabilities (i.e. the public investments to provide value for money, assets are recorded and managed properly, fiscal risks are identified, debts and guarantees are prudently planned, approved, and monitored,
iv. the alignment of fiscal strategy and the budget estimates to adequate macroeconomic and fiscal forecasts, government fiscal priorities, TSDF, sector plans and corporate plans,
v. the implementation of the budget within a system of effective standards, processes, and internal controls (include measures to minimize expenditure and revenue arrears, integration of payroll at Treasury and personal records at PSC, procurement monitoring),
vi. the accuracy and reliability of the financial records (includes measures to improve bank reconciliations, possibility of introducing single treasury account to facilitate accounts reconciliations) and
vii. the independent review by Parliament of public finance and audit recommendations to be followed up.

The formulated PFM reform and action plan matrix was approved by the PFM Reform Technical Committee in November 2023 to be the basis of the stakeholders' consultations with the responsible line ministries. This is an important phase to ensure that the responsible line ministries: -

- endorse and own the proposed reforms and actions, and
- prioritize and sequence the reforms over the medium term, in accordance with their staffing capacity and budget allocations; and
- propose staffing capacity improvements and technical assistance needs, staffing attachments, and further PFM training.

Learning from the shortfalls in implementing the last Roadmap (2014-19) and Action Plan (2020), a new PFM governance structure has been put in place to oversee the effective implementation of the proposed PFM Reform Roadmap.

- A new PFM Secretariat Division was established at the Ministry of Finance in July 2023, and

- Cabinet also approved in July 2023, the establishment of a PFM Reform Technical Committee (Chaired by the Chief Secretary & Secretary to Cabinet, members are the CEOs from the responsible ministries) to guide the formulation and the implementation of the PFM Reform Roadmap 2024-29.
- The PFM Reform Technical Committee reports on the PADCC (a Cabinet Sub-Committee).

With the guidance of the PFM Technical Committee, the proposed Reform Roadmap will be implemented through revisions to the PFM Act, PFM Regulations, and the Treasury Instructions. With the endorsement by Cabinet of the draft PFM Reform Roadmap & Rolling Action Plan 2024-29 later in the year, the responsible Ministries will be mandated to incorporate the planned reforms and actions as priorities into their respective corporate plans.

The PFM Reform & Rolling Action Plan 2024-29 is scheduled to be completed by June 2024.

Asset Management Framework

The Financial Framework Division of the Ministry of Finance is taking the lead in the process of stocktaking all government assets. At this stage, the progress thus far, include instituting a policy and framework for managing fixed assets. This framework was established as a guideline towards managing and maintaining of Government Asset. This also contributes to improve financial transparency and accountability within the public service.

As part of the activities outlined in the framework, the Asset Management team is currently coordinating the asset count within the public service. The process includes verifying the existence of assets, identify assets that are not on the asset register and assets that are not located during the asset count process. The timeframe for the asset count process is to undertake between late January 2024 and April 2024, with the final report to be completed by mid-June 2024.

Medium-Term Budget Framework

The medium-term budget framework for FY 2025 - FY 2027 will uphold Government Priority Agendas through implementing the following fiscal objectives and targets:

The Ministry of Finance fiscal targets are summarised below.

A- Table 4: MOF Fiscal Targets

Fiscal Policy	Short-term	Long-term
Growth	Tonga's economy had experienced a 0.4 percent averaged growth rate in the past five years 2017–2021. Growth is forecast to further contract to negative 0.6 percent in 2022 and to recover at an average of 2.8 percent in 2025-2027. This is through continuous recovery and increase investment in key economic sectors.	Growth long-term target of 3.0 to 4.0 percent growth per annum consistent with macroeconomic stability.
Debt	In line with Government Debt Strategy 2021-2025, aiming to reduce debt distress: i. no new external borrowing, except for a highly concessional facility if need to borrow. i. domesticating external debt	The aim is to manage exchange rate risks and refinancing risks to the Government. Government can only borrow as a last resort in terms of financing options.
Operating balance	The Government will use fiscal policy to increase productivity and affordability of key public services through implementing of the PFM reforms (organisational review), focus on addressing negative impacts due to inflation, climate change and the spillover effect on vulnerable groups.	The Government will: i. improve fiscal discipline through targeted spending on key priority areas ii. intend to achieve an annual average fiscal surplus of 1.0-2.0 percent of GDP.
Revenue	Target is to Improve revenue collection through: i. continuous implementation of revenue reforms. ii. strengthen compliance and administration, and iii. review of tax exemption	Target is to improve collection to and above the threshold, 25 percent of GDP. This is to support Government objectives towards continuous recovery and increase investments to boost economic growth to its potential.
Expenses	Fiscal consolidation through rationalise expenditure adhering to the PFM objectives, to focus spending on targeted area such as investment on key sectors.	Target is to prioritise spending to achieve government priority agendas and continuous fiscal discipline through adhering to the PFM three objectives.
Inflation	CPI has gone down to 3.6 percent (Feb 2024) from its peak at 14.0 percent (Sep2022), notable concerns remain considering domestic inflation still increases. Average Annual Inflation Rate 5.7 percent (Feb 2024) exceeds the NRBT reference target of 5.0 percent.	Maintain price stability consistent with the current economic situation and to ensure macroeconomic stability. Forecast to fall below 5 percent in the medium term, however it may still increase above the threshold due to the domestic inflation.

Source: **Government of Tonga, Budget Strategy FY 2025, Ministry of Finance (MOF)**

8.2.1 Macroeconomic stability, sustainable fiscal resources, and social programs

The Government will continue implementing prudent fiscal policies and prioritize resource allocation to uphold macroeconomic stability and deliver essential services to the public. Special consideration will also be devoted to supporting vulnerable groups through:

Promoting opportunities to increase resilience, inclusive economic growth.

The government, in collaboration with development partners, will continue supporting recovery efforts and fostering resilience, inclusive economic growth through:

- ✓ increase investment in key economic sectors (PPP)
- ✓ ongoing support to promote social safety net (monthly stipend to elderlies, less disadvantaged groups, age care support and planned construction of centers and 'Tāpanekale' project,
- ✓ electricity price subsidy (lifeline tariff targeting consumption below 150 kilowatts),
- ✓ education school fees (SET Projects) and primary student breakfast initiative include ECE.
- ✓ financial facility (GDL facility),
- ✓ disaster risk financing *(as further details in section below),*
- ✓ completion of HTHH housing reconstruction and ongoing disaster and climate change adaptation program include communities' program and national security programs.

The government will continuously assess strategies in response to persisting geopolitical tensions, conflicts, and crises at the global level, recognizing the potential uncertainty surrounding their impacts on domestic economy, particularly concerning the volatility in petroleum and food imports. This will involve collaboration with the NRBT to implement effective measures aimed at alleviating any possible inflationary pressures, including liquidity management within the financial system.

Disaster Risk Financing

Tonga is one of the most at-risk countries in the world, threatened by natural disasters such as tropical cyclones, floods, earthquake, tsunami, and recently volcanic eruption. Climate change has worsened the situation and increase our vulnerability to external shocks, both economic and financial shock. While Tonga suffers from Tropical Cyclone Gita, Tropical Cyclone Harold and global pandemic COVID-19, the HTHH volcanic eruption severely damaged Tongatapu and 'Eua, which further impacted the financial and fiscal capacity of the government.

The government, based on the existing disaster, legal and policy framework pre-arranged finance to increase the speed, predictability and effectiveness of disaster finance response and recovery. Thus, enabling earlier, predictable action to protect lives and livelihood and safeguard growth and development.

With recent survey by PCRAFI as part of SPC implementing the DRFS Priority 1 – Identify and quantify disaster-related economic and fiscal/financial risk, including those exacerbated by climate change, shows its severe impact of disaster losses on livelihood of the people of Tonga. This survey collects and assembles an exposure database on population, building, infrastructure, utilities, crops and livestock.

In the last ten years, from 2013 to 2023, there have been four main natural disaster events in Tonga that cause huge damages, loss of lives and its negative impact on economic development and public finances, excluding the global pandemic of Covid-19. Thus in 2014 – Tropical Cyclone Ian, 2018 – Tropical Cyclone Gita, 2020 – Tropical Cyclone Harold and 2022 – Hunga Tonga Hunga Ha'apai volcanic eruption and tsunami.

A- Table 5: Economic Impacts on our Real GDP

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Real GDP (%)	0.3	**2.0**	1.2	6.6	3.3	**0.2**	0.7	**0.5**	-2.7	**-0.6**	2.8
Dev. Budget (Tm)	105	138	122	165	164	233	150	209	204	212	364

Source: Ministry of Finance (MOF)

The *A-Table 5* above indicates the economic impacts on our Real GDP in those years of disaster events, 2014, 2018, 2020 and 2022 respectively.

- *Capacity building: address weak capacity and institutions*

The government is dedicated to implementing reforms, which encompass institutional strengthening, organizational review, and capacity development. These measures aim to improve government service delivery to both vulnerable groups and the wider public.

8.2.2 Public Debt Position

The risk of external debt distress and overall risk of debt distress rating for Tonga remains high, as per the **IMF Staff report for the 2023 Article IV Consultation on Debt Sustainability Analysis (DSA).** Large external shocks in recent years have exacerbated Tonga's debt vulnerabilities, resulting in government introducing new issuance of bond during FY 2024. Given the current year Budget's deficit, Tonga continues to function with no new loan except if it is a highly concessional loan terms and conditions (free-interest loan) and looking at domesticating external debt to comply with the **Medium-Term Debt Strategy (MTDS)**. The MTDS 2024-2026 was setting the Debt Policy to remain with no new non-concessional borrowing except borrowing from highly concessional facilities and domestic market development. The government is looking to explore other avenues to consider for infrastructure development, including AIIB and some possible financial initiatives, for instance, the Climate Resilience Debt, but can only contracted if terms and conditions are highly concessional and at lower cost.

The government had begun with paying off the principal repayment towards the Nuku'alofa Central Business District (CBD) Reconstructions loan this financial year (FY 2024); the government is closely liaising with CBD on-lent Borrowers for the best way to collect their loan repayments and to assist with the upcoming external debt services.

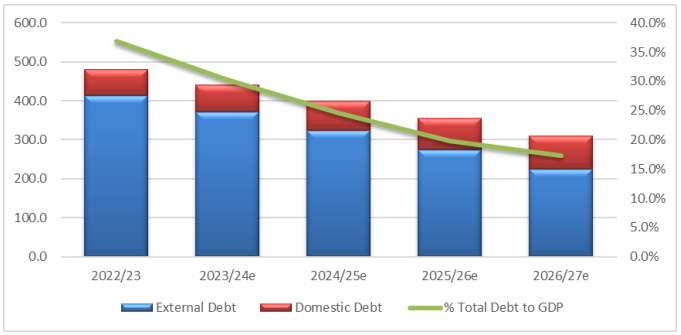
Government of Tonga is anticipating a continuous high debt service in FY 2025 and the next 3 years because of the commencement of the principal repayment of the Nuku'alofa CBD Reconstruction project loan to China EXIM Bank. Total debt service due to China EXIM Bank in FY 2025 is estimated at $42.0m, which accounts for 61.0 percent of Tonga's total debt service for FY 2025. Government has issued a new bond in FY 2024 as one of the refinancing options to assist with our external debt repayment and will continue to domesticate the external debt to reduce exchange rate risk.

.

Total Public Debt

The current debt portfolio is exposed to refinancing risk and exchange rate risk. The share of debt denominated in foreign currencies is estimated to be 84.0 percent of the total debt as of 30th June 2024. The portfolio still has a large exposure to the Chinese renminbi (CNY) which represents 47.0 percent of the total outstanding debt. Refinancing risk mainly arises from the principal repayments, scheduled from 2024 to 2029, of the two large loans provided by the EXIM Bank. Although the outstanding amount of domestic debt represents only 16.0 percent of total outstanding debt, the refinancing risk is elevated considering 25.0 percent of the domestic debt portfolio is maturing with 1 year and the Average Term to Maturity (ATM) is low (2.2 years). Total *public* debt as of 30th June 2024 is estimated at $440.8m *(36.0 percent of GDP)*, a decrease by 9.4 percent to $45.7m as from 30th of June 2023.

A-Figure 3: Total Public Debt ($m) FY 2023 – FY 2027 (including actual and projected)

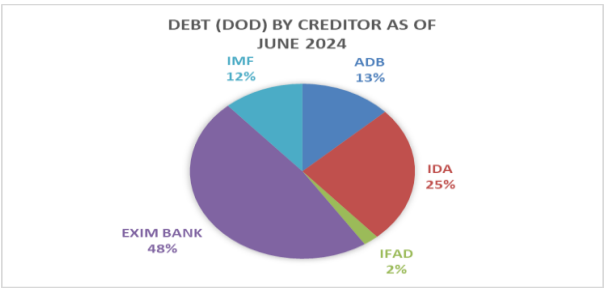


Source: MOF [Financial Framework Division (FFD)-Debt Unit]

External Debt

Total *external* debt as of 30 June 2024 is estimated at $370.5m *(30.0 percent of GDP)*. The main outstanding currency denomination of the external debt, as of 30 June 2024, is estimated as (CNY) at $177.1m (*47.8 percent*), and the Special Drawing Rights (SDR) at $150.7m *(40.7 percent)*, and other currencies at $42.7m (*11.5 percent*). The Government will also review other options for loan repayments considering refinancing risk and exchange rate risk. The projected changes in value from June 2023 to June 2024 due to the repayment made to China EXIM Bank, ADB, WB and new bond issuance of $3.0m during FY 2024.

A-Figure 4: Debt by Creditor as of 30th June 2024

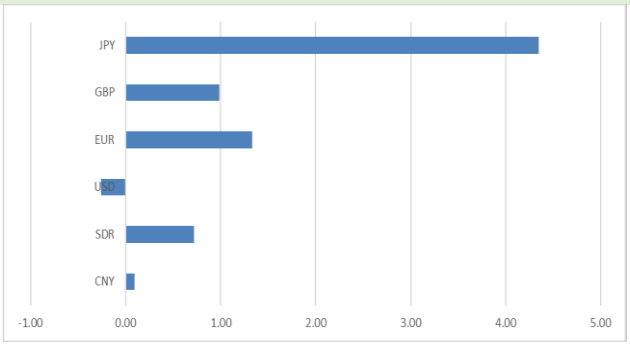


Source: MOF [Financial Framework Division (FFD)-Debt Unit]

Currency Denomination of External Debt

The major borrowing currency CNY is expecting to appreciate against Tongan Pa'anga by 0.09 percent between June 2023 and the end of June 2024. *A-Figure 5* illustrates the fluctuations of borrowing currencies including basket currencies of Special Drawing Rig52hts (SDR). Therefore, because of the peak projected repayment of China in FY 2024, the depreciation of Tongan Pa'anga against the USD by 0.26 is an issue despite the appreciation to CNY.

A-Figure 5: FC/TOP Exchange rate Fluctuations as of 30th June 2024



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

Domestic Debt

The current domestic debt portfolio consists of Government Bonds only, however there are other domestic financial instruments that might assist the government as may need to domesticate external debt in the next few years. These include domestic debt securities such as a zero-coupon bond and treasury bills. Domestic debt is composed of Treasury bonds with tenors ranging from 2 to 6 years. Government has mainly issued bonds with a maturity of 5 years. ***A-Table 6*** shows the outstanding amounts by tenor as of 30 June 2024. Issuance is authorized and capped by the Minister of Finance while the National Reserve Bank of Tonga (National Reserve Bank of Tonga) act as the registrar of domestic bonds issuance.

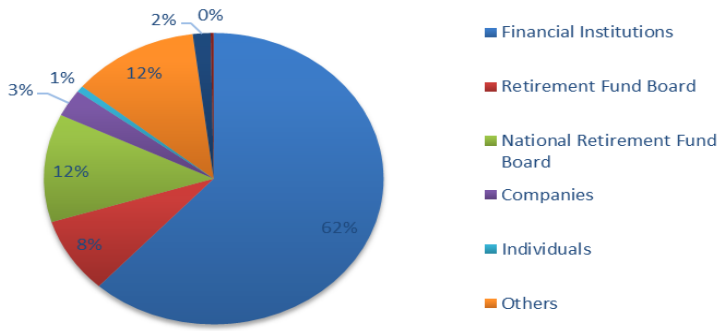
A- Table 6:Outstanding amounts by tenors as of 30th June 2024

Tenor	as of June 30th 2024 Outstanding (in TOP)	% TOTAL
2 years	$5,000,000.00	7.1%
3 years	$9,026,000.00	12.8%
4 years	$1,000,000.00	1.4%
5 years	$40,617,000.00	57.7%
6 years	$14,704,000.00	20.9%
	$70,347,000.00	**100%**

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

Total *domestic* debt as of 30th June 2024 is estimated at $70.3m *(5.7 percent of GDP)*, consisting of 100 percent Government bonds on issue. This includes the $3.0m new Government Bond issued during FY 2024. Most of the bonds, estimated 62.0 percent, are held by Financial Institutions as shown below.

A-Figure 6: Government Bond Holders as of 30th June 2024 (percent)



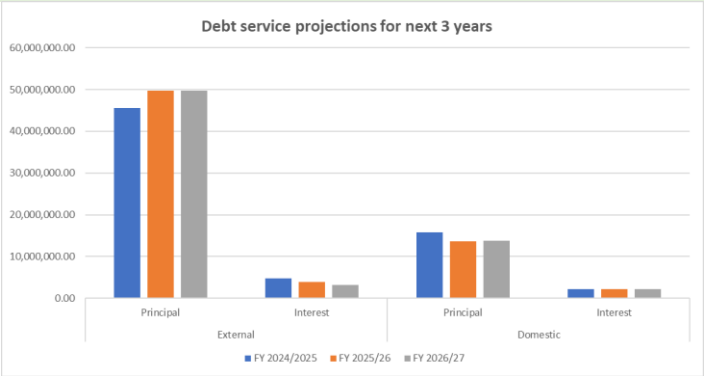
Source: MOF [Financial Framework Division (FFD)-Debt Unit]

Debt Service

Total debt service (expenditure), for the year ended 30th June 2024, is estimated at $68.4m, comprising of external $50.4m (74.0 *percent of total debt service*) and domestic $18.0m (26.0 *percent of total debt service*). This is an increase from $42.6m in June 2023, attributed to DSSI and exchange rate fluctuation.

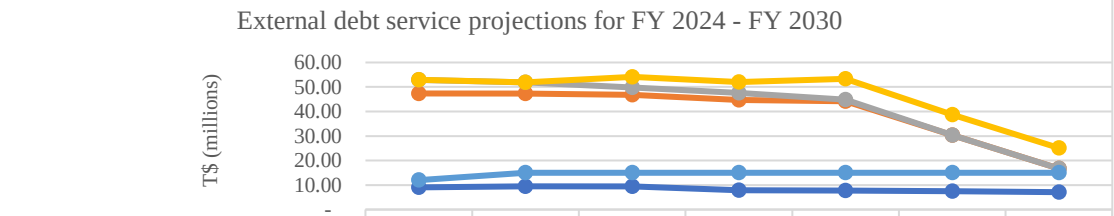
A-Figure 7 reflects all the debt service forecasts for the maturity term of the China loans as will significantly affect the trend of debt service forecasts due to the principal repayment for Nuku'alofa CBD loan, which will continue in FY 2025. The domestic debt service is based on current bond maturity (principal) at an average term of 5 years and at a weighted average (interest) of 2.6 percent on the total bonds on issue ($70.3m). Further domestic borrowing in the medium term will help refinance external debt through domestic bonds and to reduce exchange rate risk. Terms and conditions will be subject to market preferences, but it is expecting that new Government Bonds can be issued at lower interest rates.

A-Figure 7: Debt Service projections for the next three (3) years



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

A-Figure 8: Debt Service with DSSI and IMF – Rapid Credit Facility (RCF)



	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Other External	9.01	9.47	9.41	7.81	7.75	7.43	7.09
Other External + China loans	47.37	47.34	46.79	44.71	44.17	30.33	16.71
Other Ext + China loans + DSSI	52.88	51.95	49.74	47.60	44.88	30.33	16.71
Other Ext + China loans + DSSI + IMF	52.88	51.95	54.14	52.00	53.28	38.73	25.11
Bond Maturity	12.00	15.00	15.00	15.00	15.00	15.00	15.00

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

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

On-lent Loans

Government on-lent loans serve as a bridge between international creditors and local beneficiaries, including public enterprises and private sector, enabling essential investments to promote economic growth. Given that the government bears the risk that the borrower entity might be on default, the Debt Management Office (DMO) had drafted an On-lent loan policy. Default by the borrower burdens the government with the obligation of debt servicing, which it must finance out of its own resources.

Total on-lent loans, as of 30th June 2024, due to Government from various public and other enterprises are estimated at $50.7m[21] (4.1 percent of GDP and 13.7 percent of total external loans). As the government began repaying the China EXIM loan and projected to continue for the next 4 years, government's negotiation with the CBD on-lent loans borrowers is a work in progress. The Ministry of Finance is continuously liaising with the Nuku'alofa Reconstructions CBD borrowers to the extent of seeking a better way forward to repay their outstanding on-lent loans at the same time these private companies are financially recovered from shocks.

A- Table 7:On-lent Loans as of 30th June 2024

Borrowers	**June - 24 est. ($m)**
Talamahu Market Co.	1.24
TAMA	1.03
TBC	2.00
Nuku'alofa CBD Projects	
Royco Amalgamated Co. Ltd	1.63
MF Taumoepeau Ltd.	6.92
O.G. Sanft Ltd	9.92
City Assets Ltd	6.56
Tungi Colonnade Ltd	15.99
TOTAL	***45.29***

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

[21] Includes Agriculture and Fisheries Loans to private sector, Gita Recovery Loan Fund and Micro-finance loans

Government Development Loan

The Government established the Government Development Loan facility in 2017 to support various sectors in the economy and has been varied through-out the years in the continued effort to encourage investments in the private sectors. As of June 2023, due to the impacts of HTHH and COVID-19, the government and the Tonga Development Bank have come to an agreement to re-allocate funds yet allocated from the original GDL Fund of $18,250,243.76 amounted at $9,250,243.76 to sectors affected at an interest rate of 1 percent for a relief period between May 2022 and May 2023. The total balance managed by TDB as at 30 June 2023 is T$18,250,243.77.

As of 1st April 2024, the facility has an available for lending balance of $2,111,320 at the same time the Bank is working on its asset recovery process for 83 defaulting accounts amounted to $2,222,698.

:

A- Table 8: Government Development Loans as of 1st of April 2024

Sectors	Interest %	Available for Lending 1st of April 2024
Agriculture Marketing & Production Fund 3%	3.0	$ -82,453.00
Fisheries Development and Export Fund 3%	3.0	$ -407,442.00
Student Loan scheme 3%	3.0	$ -832,466.00
Overseas Medical Cover 3%	3.0	$ 100,000.00
Fisheries Loan Fund & Covid 19 & TC Harold 3%	3.0	$ 80,534.00
Tourism Loan Fund Covid 19 & TC Harold 3%	3.0	$ 114,810.00
Sub-Total from Original GDL		**$ -1,027,017.00**
New GDL re-allocation		
Agriculture & Forestry Development Loan 1%	3.0	$ 648,854.00
Fisheries Development and Export Fund 1%	3.0	$ 147,477.00
Tourism Loan Fund 1%	3.0	$ 1,816,773.00
Manufacturing 1%	3.0	$ -129,344.00
Retail & Wholesale 1%	3.0	$ 617,712.00
Education Loan 1%	3.0	$ 107,271.00
Special Facility Fund for HHHT & Covid 19 1%	3.0	$ -70,406.00
Sub - Total from New GDL		$ 3,138,337.00
Total Available for Lending Balance		**$ 2,111,320.00**

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

Government Guaranteed Loan

Total Government Guaranteed loan as of June 2024 is estimated at $15.43m, 1.2 percent of GDP. These are for Roads Project (39.5 percent of total government-guaranteed loans), Cost Low Co. Ltd (36.3 percent of total government-guaranteed loans), Lulutai Airlines Ltd (9.2 percent of total government-guaranteed loans) and Royco Ports Ltd (15 percent of total government-guarantee loans).

A- Table 9: Government Guarantee Loans as at end of June 2024

Borrower	Total Loan Amount (T$ in millions)	Cumulative Repayments June 2024 (T$ in millions)	Estimate Interest Arrear	Disbursed Outstanding Debt June 2024 (T$ in millions)
City Enginerring & Construction Limited	4.09	3.56	0.07	0.60
Inter Pacific Limited	3.97	0.63	0.04	3.37
Island Dredging	3.94	1.87	0.06	2.12
Lulutai Airlines Ltd	3.50	2.08	-	1.42
Cost Low Company Ltd	5.60	-	0.60	5.60
Royco Ports Services Ltd	2.70	0.39	-	2.31
TOTAL	**23.80**	**8.54**	**0.77**	**15.43**

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

The government pre-formulates policy—such as electrifying rural areas—and may decide to assume contingent liabilities, like government guarantees to utilities such as electricity, to achieve its objective. The management of contingent liability risks should be embedded in sound governance arrangements, including the legal framework and institutional set-up. The objective of a risk management strategy is to implement tools to mitigate and monitor risks in line with the policy framework. Such tools help to raise awareness about risks (e.g. risk disclosure and accounting); mitigate risks (e.g. through financial hedges[1] and (re-insurance); and raise preparedness in case risks materialize (e.g. through fee revenues; contingency funds; and budgeting).

Summary of Debt Ratios

A-Table 10 illustrates the actual debt sustainability indicators against the various targets. Net Present Value (NPV) of debt ratios against other macro data remains within the new indicators, including exports and remittances, but are in breach of the indicator without remittances. NPV of external debt as a ratio of GDP and exports is below the target value. These estimates are based on the latest foreign exchange rates in February 2024 and do not account for any future fluctuations against the Tongan Pa'anga.

The cost of the existing debt portfolio is relatively low and driven by the large share of external debt. At the end of FY 2024, the present value of total debt represented 29.5 percent of GDP compared to the nominal debt, which stood at 35.6 percent of GDP. This shows that total debt as an important share of concessional external borrowing. Under the DSSI, interest payments scheduled in FY 2021 for the two largest loans of the portfolio have been suspended, which is driving down the other cost indicators in the *A-Table 10* below. Indeed, total interest payments projected for FY 2024 represent 0.6 percent of GDP, but without the DSSI, this ratio would have been at 0.4 percent of GDP. The same is true for the weighted average implied interest rate of the portfolio, which is 1.5 percent, instead of 1.1 percent, without the DSSI. The cost of domestic debt is higher than the cost of external debt with a weighted average implied interest rate of respectively 2.8 percent and 1.3 percent. The latest issuances of Treasury bonds were achieved at similar interest rates.

A- Table 10:Cost and Risk Indicators of Debt Outstanding as at end of FY 2024 ($m)

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in ms)		370.5	70.3	440.8
Nominal debt as percent of GDP		30.1	5.7	35.6
PV as percent of GDP[1]		23.8	5.7	29.5
Cost of debt[2]	Interest payment as percent of GDP[3]	0.4	0.1	0.5
	Weighted Av. IR (percent)	1.3	2.8	1.5
Refinancing risk[2]	ATM (years)	9.3	2.2	8.4
	Debt maturing in 1yr (percent of total)	10.0	25.2	11.9
	Debt maturing in 1yr (percent of GDP)	3.2	1.2	4.4
Interest rate risk[2]	ATR (years)	9.3	2.2	8.4
	Debt refixing in 1yr (percent of total)	10.0	25.2	11.9
	Fixed rate debt incl T-bills (percent of total)	100.0	100.0	100.0
	T-bills (percent of total)	0.0	0.0	0.0
FX risk	FX debt (percent of total debt)			86.6
	ST FX debt (percent of reserves)			5.0

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

8.2.3 Overview of Government Budget in the GFS Format[22] - GFS

The adoption of the Government Finance Statistic (GFS) format in government budget presentation is crucial for ensuring high transparency, comparability, and accountability in public financial management, through providing a detailed analysis of revenue, expenditure, and debt figures. GFS also facilitates the effective formulation and evaluation of fiscal policies aimed at macroeconomic stability, ensures adherence to international best practices, fostering informed decision-making, and enhancing public trust in government fiscal policies.

ccording to the fiscal year 2024 revised estimate, as delineated in *A-Table 11*, there is a positive fiscal stance, transitioning from the approved FY2024 budget estimate, surplus of $25.3 m to a revised estimate FY2024, surplus of $43.6m. The upward revision was triggered from the substantial reduction in total expenses by $78.6m (11.0 percent). In details: *i*. the total government operating expenses decreased (by $30.5m or 5.9 percent) and *ii*. net acquisition of non-financial assets (by $48.1m or 24.0 percent) outperforming the decline in total revenue by $60.5 m (8.2 percent). The expenditure decline is primarily linked to a reduction in capital investment, predominantly financed by external donors for development projects.

A- Table 11: Summary of Government Budget in the GFS format ($m)

	Actual 2022/23	Budget Estimate 2023/24	Revised Estimate 2023/24	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Revenue	**652.5**	**741.9**	**681.4**	**870.7**	**814.7**	**782.2**
Taxes	**285.5**	**283.0**	**291.8**	**327.7**	**327.9**	**330.3**
Taxes on income, profits, and capital gains	58.0	55.4	63.8	68.8	72.9	71.9
Taxes on property	0.4	0.4	0.5	0.5	0.5	0.6
Taxes on goods and services	195.6	196.7	196.6	215.7	218.0	219.7
Taxes on international trade and transactions	31.6	30.6	31.0	42.7	36.5	38.2
Other taxes	0.0	0.0	-	-	-	-
Grants	**336.4**	**415.4**	**347.2**	**488.5**	**425.8**	**391.9**
Current	53.7	50.5	48.2	72.35	63.5	67.5
Capital	282.7	364.9	299.0	416.1	362.3	324.4
Other revenue	**30.5**	**43.4**	**42.3**	**54.5**	**61.0**	**60.0**
Property income [GFS]	11.4	10.1	9.8	12.7	15.1	14.5
Sales of goods and services	16.4	17.8	15.6	21.2	23.1	24.0
Fines, penalties, and forfeits	0.8	0.9	0.9	1.1	1.2	1.3
Voluntary transfers other than grants	0.1	0.1	0.4	0.0	-	-
Miscellaneous and unidentified revenue	1.9	14.5	15.6	19.6	21.6	20.1
Expense	**483.8**	**514.8**	**484.3**	**595.2**	**515.2**	**500.7**
Compensation of employees	**163.5**	**173.4**	**164.6**	**189.4**	**188.4**	**187.8**
Wages and salaries	151.4	160.3	152.9	175.1	174.1	173.6
Social contributions	12.1	13.2	11.7	14.3	14.3	14.3
Use of goods and services	**225.1**	**239.5**	**224.9**	**278.7**	**233.2**	**217.3**
Interest	**8.2**	**7.5**	**7.4**	**6.9**	**6.1**	**5.4**
To nonresidents	6.2	5.8	5.7	4.8	3.9	3.2
To residents other than general government	2.0	1.8	1.7	2.1	2.1	2.1
Subsidies	**1.2**	**1.3**	**1.1**	**1.3**	**1.3**	**1.3**
Subsidies to public corporations	0.0	0.0	-	-	-	-
Subsidies to private enterprises	1.2	1.3	1.1	1.3	1.3	1.3
Grants	**21.9**	**36.9**	**29.9**	**43.1**	**21.8**	**24.1**
Social benefits	**28.2**	**26.5**	**26.2**	**28.4**	**29.3**	**30.3**
Other expense	**35.7**	**29.6**	**30.2**	**47.4**	**35.2**	**34.5**
Gross Operating Balance	**168.7**	**227.1**	**197.1**	**275.5**	**299.5**	**281.5**
Net Acquisition Of Nonfinancial Assets	**95.3**	**201.8**	**153.6**	**232.8**	**250.2**	**224.6**
Fixed assets	**95.1**	**199.9**	**152.0**	**229.3**	**248.5**	**222.9**
Buildings and structures	47.6	136.2	107.7	162.9	203.1	186.1
Machinery and equipment	43.7	51.2	37.8	33.0	33.9	26.3
Other fixed assets	3.7	12.5	6.5	33.4	11.4	10.4
Nonproduced assets	**0.2**	**1.9**	**1.6**	**3.5**	**1.7**	**1.7**
Land	0.2	1.9	1.6	3.5	1.7	1.7
Net Lending/Borrowing Requirement	**73.4**	**25.3**	**43.6**	**42.8**	**54.9**	**62.4**
Net Acquisition Of Financial Assets And Liabilities (Financing)	**-73.4**	**-25.3**	**(43.6)**	**(42.8)**	**(54.9)**	**(62.4)**
Financial Assets	**-74.1**	**19.1**	**1.2**	**4.2**	**(6.2)**	**(13.4)**
Domestic	-74.1	19.1	1.2	4.2	-6.2	-13.4
Currency and deposits	-65.3	27.0	-0.8	0.0	0.0	-7.2
Loans	0.4	0.3	8.0	13.4	3.0	3.0
Shares and other equity	-9.3	-8.2	-5.9	-9.2	-9.2	-9.2
Financial Liabilities	**0.7**	**-44.3**	**(44.8)**	**(46.9)**	**(48.7)**	**(49.0)**
Domestic	0.0	3.0	3.0	(0.8)	1.4	1.2
Loans	15.1	15.0	15.0	15.0	15.0	15.0
Repayments	15.1	12.0	12.0	15.8	13.6	13.8
Foreign	0.7	-47.3	(47.8)	(46.1)	(50.1)	(50.1)
Loans	21.0	0.0	-	-	-	-
Repayments	20.3	47.3	47.8	46.1	50.1	50.1

Source: Ministry of Finance (MOF)

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

Looking ahead to FY 2025, the government's fiscal position is estimated to a fiscal surplus of $42.8m or 3.4 percent of GDP. This projection considers the focus on increase investment to boost and unleash economic growth on key economic sectors over the medium term.

REVENUE

As in *A-Table 12*, below reflects the revenue performance in FY 2024, revised estimate for revenue is expected to decrease to $681.4m, domestic revenue is expected to increase, triggered by $8.8 m (3.1 percent) increase in tax revenue from the approved estimates. This triggered from increase in tax on income, profit and capital gains *(A-Table 13)* by $8.4 m (15.1 percent). This growth fuelled largely from corporate tax-large business, PAYE tax-non-government, improvement in compliance and administration efforts showing the recovery of business and economic activities.

Conversely, there is an anticipation of a 2.5 percent ($1.1m) dropped in non-tax revenue, stemming from NIL collections from the dividend from other investments, as Tonga Development Bank (TDB) dividends are not expected to be collected. The under-collections of other fees are expected to decline, including passport, visas and school fees. This is partly due to the impact of the extension of government primary schools to include Form 1 and 2 as more students are exempted from school fees, and slower demanding for visa and passport compared to last fiscal year when the border was freshly re-opened.

Similarly, grant revenue is projected a huge reduction by $68.2 m (16.4 percent), predominantly attribute to capital grants allocated for development projects.

In FY 2025, the total revenue is anticipated a substantial improvement of 27.8 percent ($189.3m), compared to the revised estimate of fiscal year 2024. This advancement includes improve enforcement and compliances, encompassing the implementation of Phase 2 of the Electronic Sales Register System. Overall, this improvement primarily stems from an increase in grant revenue by 40.7 percent ($141.3m), as budget support receipt is projected to increase, supported by implementing the policy triggers under the Joint Policy Reform Matrix (JPRM). The non-tax revenue projected to increase by 28.8 percent ($12.2m) reflecting the ongoing works to review of fees and charges, and the continuous improvement in return from Public Enterprises (PEs) and National Reserve Bank of Tonga (NRBT). The tax revenue also expected to increase by 12.3 percent ($35.9m), to be triggered by improved collection from consumption tax and corporate tax-large business.

A- Table 12:Revenue ($m)

	Actual 2022/23	Budget Estimate 2023/24	Revised Estimate 2023/24	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Revenue						
Taxes	285.5	283.0	291.8	327.7	327.9	330.3
Grants	336.4	415.4	347.2	488.5	425.8	391.9
Non-tax or Other revenue	30.5	43.4	42.3	54.5	61.0	60.0
Total	**652.5**	**741.9**	**681.4**	**870.7**	**814.7**	**782.2**

Source: Ministry of Finance (MOF)

A- Table 13:Tax Revenue by main category ($m)

	Actual 2022/23	Budget Estimate 2023/24	Revised Estimate 2023/24	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Taxes						
Taxes on income, profits, and capital gains	58.0	55.4	63.8	68.8	72.9	71.9
Taxes on property	0.4	0.4	0.5	0.5	0.5	0.6
Taxes on goods and services	195.6	196.7	196.6	215.7	218.0	219.7
Taxes on international trade and transactions	31.6	30.6	31.0	42.7	36.5	38.2
Other taxes	0.0	0.0	-	-	-	-
Total	**285.5**	**283.0**	**291.8**	**327.7**	**327.9**	**330.3**

Source: Ministry of Finance (MOF)

Tax on goods and services: In A-Table 14 below, Tax on goods and services is estimated at $215.7m in FY 2025, an increase of $19.0m (9.7 percent) from the revised estimate of $196.6m in FY 2024. This was triggered largely from the increase in consumption tax by $9.8m (7.6 percent) and excise tax includes funding for the Road Maintenance Fund (RMF) from revolving funds by $8.0m (13.3 percent) respectively. These positive outturns were due to the sustained remittances, opening of borders and recovery of economic activities from the impact of COVID-19 and HTHH. The outlook remains positive.

A- Table 14:Tax on Goods and Services ($m)

	Actual 2022/23	Budget Estimate 2023/24	Revised Estimate 2023/24	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Taxes on goods and services						
General taxes on goods and services	128.3	121.4	129.4	139.3	145.4	146.4
Excise Tax	60.2	68.1	60.2	68.2	69.1	69.3
Taxes on use of goods and on permission to use goods or perform activities	7.0	7.2	7.0	8.2	3.6	4.0
Total	**195.6**	**196.7**	**196.6**	**215.7**	**218.0**	**219.7**

Source: Ministry of Finance (MOF)

Tax on International Trade and Transaction: In ***A-Table 15*** below, Total Trade tax is estimated at $42.7 m in FY 2025, an increase by $11.8 m and $12.2m respectively from the revised estimate and its approved estimate FY 2024. The positive forecast is due largely to expected improvement in collections from Forex Levy and Business Import Duties.

A- Table 15:Tax on International Trade ($m)

	Actual 2022/23	Budget Estimate 2023/24	Revised Estimate 2023/24	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Taxes on international trade and transactions						
Business Import Duties	25.4	23.9	25.2	29.5	30.0	31.5
Government Import Duties	0.4	0.5	0.4	0.4	0.5	0.5
Recoverable Charges	0.0	0.0	-	-	-	-
Forex Levy	5.8	6.2	5.4	12.8	6.0	6.2
Passenger Service Charge		0.0		-	-	-
Total	**31.6**	**30.6**	**31.0**	**42.7**	**36.5**	**38.2**

Source: Ministry of Finance (MOF)

Grants: In ***A-Table 16*** below, Grant resources are received from bilateral agreements with foreign Governments and International organizations. The breakdown of grants by development partners will be covered in *Section 6.2 and Annex III, Section 11.2*. In the table below, grants are classified into current and capital grants. Capital grants are those related to projects, which the government allocates to finance development initiatives. Current grants reflect money (cash) received as budget support.

Total Grants is estimated at $488.5 m for FY 2025, largely for development project and climate change/resilient projects. The same rationale explains the huge increase in total grants by 40.7 percent ($141.3m), compared to the revised estimate FY 2024.

A- Table 16:Grants ($m)

	Actual 2022/23	Budget Estimate 2023/24	Revised Estimate 2023/24	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Grants						
Current	53.7	50.5	48.2	72.4	63.5	67.5
Capital	282.7	364.9	299.0	416.1	362.3	324.4
Total	**336.4**	**415.4**	**347.2**	**488.5**	**425.8**	**391.9**

Source: Ministry of Finance (MOF)

Revenue (Non-tax): In ***A-Table 17*** below, other revenue for FY 2025 is estimated at $54.5 m, an increase of 28.8 percent ($12.2 m) from the revised estimate of FY 2024. This spike was due to the expected revising of public service fees and charges, along with an increase of revenue, expecting from the PEs and NRBT, the estimates for the medium-term are considered quite optimistic.

A- Table 17: Other Revenue (Non-tax) ($m)

	Actual 2022/23	Budget Estimate 2023/24	Revised Estimate 2023/24	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Other revenue						
Property income [GFS]	11.4	10.1	9.8	12.7	15.1	14.5
Sales of goods and services	16.4	17.8	15.6	21.2	23.1	24.0
Fines, penalties, and forfeits	0.8	0.9	0.9	1.1	1.2	1.3
Voluntary transfers other than grants	0.1	0.1	0.4	-	-	-
Miscellaneous and unidentified revenue	1.9	14.5	15.6	19.6	21.6	20.1
Total	**30.5**	**43.4**	**42.3**	**54.5**	**61.0**	**60.0**

Source: Ministry of Finance (MOF)

EXPENSES

The government remains committed to managing expenses prudently, with a primary focus on maintaining fiscal surplus and stability over the medium term. This entails directing expenditures towards key priority areas. Notable commitments include increasing investment in vital economic sectors, providing support to vulnerable groups, enhancing disaster management and climate change initiatives, and bolstering social services within the Health and Education sectors. Significant attention will be given to infrastructure development.

The government emphasizes prioritizing the timely repayment of loans to the China Exim Bank. Concurrently, reforms within the public service sector are underway, including the implementation of a 5 percent Cost of Living Adjustment (COLA) in FY 2024 and another 5.0 in FY 2025. This measure aims to address the effects of inflation and mitigate the decline in purchasing power experienced by citizens.

In ***A-Table 18*** below, Expenses for the FY 2025 are estimated at $595.2m, an increase by $110.9m or 22.9 percent, compared to the revised estimate of $484.3m in FY 2024. The increase is primarily due to the significant increase in compensation of employees to accommodate the Cost-of-Living Allowance (COLA) increase by 5.0 percent and increased allocation of grants to support initiatives towards higher education, emergency relief to communities and power generation.

Going forward, total expenditure is estimated to be lower, due to the rationalisation of state expenditure in the medium term.

A- Table 18:Expenses ($m)

	Actual 2022/23	Budget Estimate 2023/24	Revised Estimate 2023/24	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Expense						
Compensation of employees	163.5	173.4	164.6	189.4	188.4	187.8
Use of goods and services	225.1	239.5	224.9	278.7	233.2	217.3
Interest	8.2	7.5	7.4	6.9	6.1	5.4
Subsidies	1.2	1.3	1.1	1.3	1.3	1.3
Grants	21.9	36.9	29.9	43.1	21.8	24.1
Social benefits	28.2	26.5	26.2	28.4	29.3	30.3
Other expense	35.7	29.6	30.2	47.4	35.2	34.5
Total	**483.8**	**514.8**	**484.3**	**595.2**	**515.2**	**500.7**

Source: Ministry of Finance (MOF)

Compensation of Employees: In ***A-Table 18 above***, "Compensation of Employees" remains the second-largest category under the expense component. The estimated outturn for FY 2024 is $164.6m, a decrease of $8.8m, compared to the original estimate of $173.4m. The reduction in expenses was because of the delays in the recruitment process and unfilled vacancies in respective MDAs.

A- Table 19:Compensation of Employees ($m)

	Actual 2022/23	Budget Estimate 2023/24	Revised Estimate 2023/24	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Compensation of employees						
Wages and salaries	151.4	160.3	152.9	175.1	174.1	173.6
Social contributions	12.1	13.2	11.7	14.3	14.3	14.3
Total	**163.5**	**173.4**	**164.6**	**189.4**	**188.4**	**187.8**

Source: Ministry of Finance (MOF)

In FY 2025, the "Compensation of Employees" category is projected at $189.4m, an increase of $24.8m from the revised estimate for FY 2024. The notable rise in the wage bill can be chiefly ascribed to several factors, including a 5 percent Cost of Living Adjustment (COLA), expenses related to new staff recruitment, and the annual rewards integrated within the Performance Management System. These elements collectively contribute to the escalation of the wage bill beyond the expected thresholds.

Similarly, social contributions, calculated as 10 percent of salaries, follow the same trend as the compensation of employees. The revised estimate for FY 2024 is at $11.7m, with an anticipated increase to $14.3m in FY 2025.

Use of Goods and Services: In *A-Table 18* above, the use of goods and services category continues to be the largest component of total expenses, with a revised estimate of $224.9m, compared to the budget estimate of $239.5m in FY 2024. This is a decrease by $14.6m, reflecting the rationalization of expenses to cater for the debt repayment and other priority expenses.

In FY 2025, the budget estimate for the use of goods and services stands at $278.7m, representing an increase of $15.8m from the revised budget estimate for FY 2024. The increase is due to the inflationary effects in the completion of COVID-19 and the HTHH volcano eruption related activities.

Interest Payments: In *A-Table 20* below, the interests rate payment on external loans continues to be a significant component. The estimated interest payments in FY 2025 amount to $6.9m, indicating a decrease by $0.5m from the FY 2024 revised budget estimate.,

The revised estimate for FY 2024 records $7.4m, a decrease by $0.1m from the original estimate of $7.5m. This reflects that the loan payments to the China Exim Bank have proceeded according to schedule, providing the government with additional fiscal space for economic development. Similar level of expenditure is expected in the medium term.

A- Table 20:Interest Payments ($m)

	Actual 2022/23	Budget Estimate 2023/24	Revised Estimate 2023/24	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Interest						
To non-residents	6.2	5.8	5.7	4.8	3.9	3.2
To residents other than general government	2.0	1.8	1.7	2.1	2.1	2.1
Total	**8.2**	**7.5**	**7.4**	**6.9**	**6.1**	**5.4**

Source: Ministry of Finance (MOF)

Subsidies: In ***A-Table 21***, Subsidies can be classified into two main types: subsidies directed towards public corporations and those directed towards private corporations. At present, the sole subsidies in operation are those allocated to private enterprises. These subsidies, such as aid development assistance that are facilitated through development committees, are projected to $1.3m in FY 2025, remains relatively constant compared

to the previous year's allocation. These subsidies are expected to continue at similar levels in the medium term.

A- Table 21:Subsidies ($m)

	Actual 2022/23	Budget Estimate 2023/24	Revised Estimate 2023/24	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Subsidies						
Subsidies to public corporations	-	-	-	-	-	-
Subsidies to private enterprises	1.2	1.3	1.1	1.3	1.3	1.3
Total	**1.2**	**1.3**	**1.1**	**1.3**	**1.3**	**1.3**

Source: Ministry of Finance (MOF)

Grants: In **A-Table 18,** grants encompass payments made for various purposes, including contributions and subscriptions to regional and international organizations, support for higher education initiatives, funding for essential energy projects, and allocation for emergency expenditures in response to disasters. A revised budget of $29.9m is estimated at the end of FY 2024, compared to the original budget of $36.9m. The grants have been to cater for various contributions and social activities, include the newly established Tonga National University and a new generator for Tonga Power Limited. For FY2025, an increased budget allocation of $13.1m has been allocated for FY 2025, with funds earmarked for institutions such as Christ's University of Pacific (CUP) and the Tonga National Qualification Board (TNQB), alongside emergency disaster relief funding. It is expected that this allocation will remain consistent in the subsequent years.

Social Benefits: In ***A-Table 18***, a slight increase in FY 2025 budget allocation of $28.4m is estimated, compared to the revised estimated FY 2024 of $26.2m. The increase is to cater for expenses include social welfare schemes, prize-giving ceremonies, and scholarships for students in both public and private schools. The projections for the subsequent years assume that expenditures on social benefits will remain constant.

Other Expenses: In ***A-Table 18***, the total budget estimate in FY 2025 stands at $47.4m, marking an increase of $17.2m from the revised estimate in FY 2024. The increase is primarily attributed to the increased grant allocation for communities and sports activities, as well as the costs of government contributions towards development projects.

Acquisition of Non-Financial Assets

In ***A-Table 22***, the total fixed asset is projected to increase to $232.8m in FY2025, from $153.6m in the revised estimate for FY2024, representing a substantial 51.0 percent increase in FY 2025. This surge in investment underscores the government's commitment to expanding infrastructure and development projects, paving the way for enhanced socio-economic growth and prosperity. This increase signifies the initiation of major projects, including the construction of the Fanga'uta Lagoon Bridge, New Parliament Building, Vava'u Hospital, and several initiatives in the energy sector.

A- Table 22:Acquisition of Non-Financial Assets ($m)

	Actual 2022/23	Budget Estimate 2023/24	Revised Estimate 2023/24	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Fixed assets						
Buildings and structures	47.6	136.2	107.7	162.9	203.1	186.1
Machinery and equipment	43.7	51.2	37.8	33.0	33.9	26.3
Other fixed assets	3.7	12.5	6.5	33.4	11.4	10.4
Land	0.2	1.9	1.6	3.5	1.7	1.7
Total	**95.3**	**201.8**	**153.6**	**232.8**	**250.2**	**224.6**

Source: Ministry of Finance (MOF)

8.2.4 Tax Expenditures

Tax expenditures are provisions in Revenue Laws (legislations, regulations[23] and orders[24]) and are also enabled through other pieces of legislation[25] instruments. These allocations afford specific groups or individuals the opportunity to mitigate or eradicate their tax obligations, as summarised in *A-Table 23*

A- Table 23:Tax Expenditures by Type of Tax as at FY2023

Tax Expenditure Items	Taxes					
	Personal Income Tax	Corporate Profits Tax	Domestic Consumption Taxes	Import Consumption Taxes	Excises	Customs Duty
Preferential tax rates						√
Tax Holidays		√				
Tax Credits		√				
Exemptions	√	√	√	√	√	√

**Preferential tax rates apply to PACER Plus Agreement only*
**Corporate Profits Tax [Corporate Tax plus Non-Resident Withholding Tax]*

Source: Ministry of Revenue and Custom (MORC)

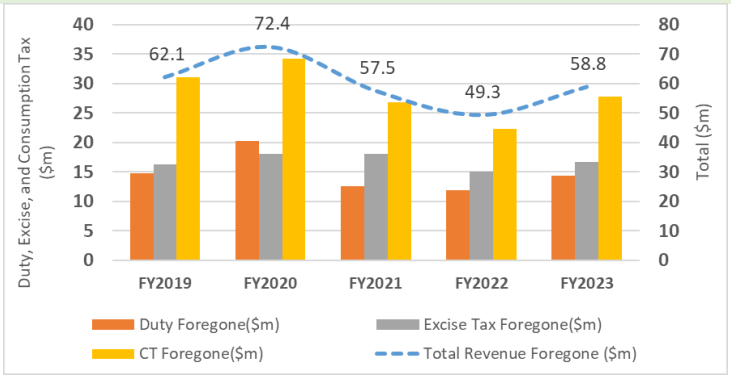
Although tax expenditures are typically granted to promote economic activities or bolster social initiatives, they entail fiscal ramifications, manifested by the escalating revenue foregone incurred by the government, as summarised in ***A-Table 24***. It has estimated for the past three (3) fiscal years, that 99.0 percent ($165.7m) of the total estimated revenue foregone from tax expenditures is from tax-exemptions and 1.0 percent *($1.6m, $1.2m for Corporate and $0.4m for Non-resident*) from tax-holiday as shown in ***A-Table 24.*** The preferential tax rates are offered in the free trade agreement, incorporated in tax exemptions under PACER PLUS sector (*refer to A-Figure 10*). The tax credit has been actioned in the past with the last case offered to a private corporate entity for the Vava'u Market property buy-back by the Government of Tonga in 2017.

A- Table 24: Estimated Revenue forgone of a Selected Expenditure Item FY2021-FY2023

Tax Expenditure Item	FY2021 ($m)	FY2022 ($m)	FY2023 ($m)	Total ($m)
Tax Holiday - Corporate Profit Tax (25%)	-	0.9	0.2	1.2
Tax Holiday - Non-Resident Witholding Tax (15%)	0.4	0.1	-	0.4
Import Exemption	57.5	49.3	58.8	165.7
Total	57.9	50.3	59.1	167.3

Source: Ministry of Revenue and Custom (MORC)

A-Figure 9: Exemptions by type, FY 2019 – FY 2023



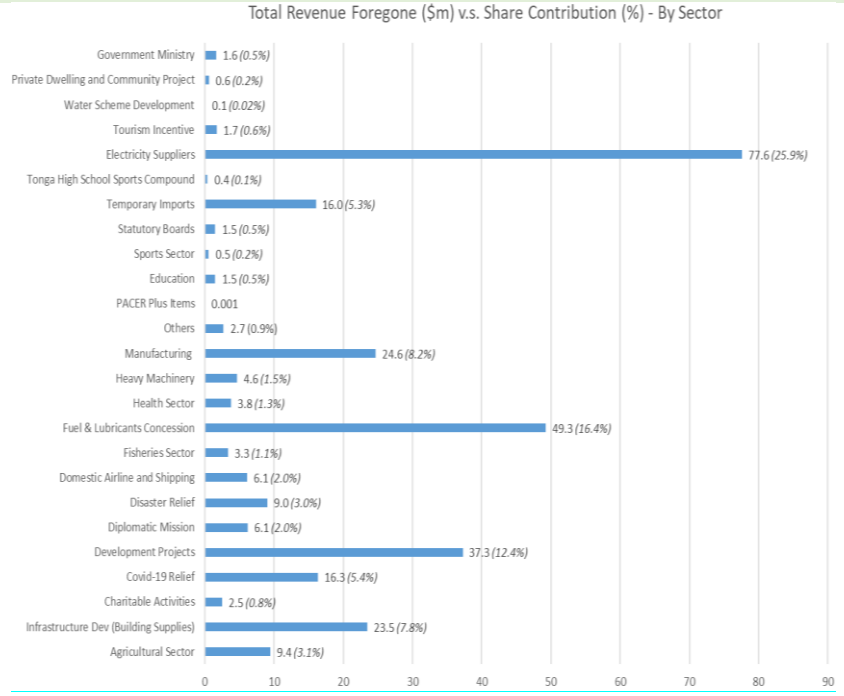
Source: MORC.

Tax exemption policies in Tonga encompass a variety of taxes, and largely on, custom duty, excise, and consumption tax. Focusing on the main three (3), the ***A-Figure 9*** illustrates the trend of tax exemptions from FY 2019 to FY 2023, revealing a significant revenue foregone estimated at $300.2 m. The tax-exemptions on consumption tax account for most revenue foregone at 47.4 percent, followed by excise tax exemptions at 28.0 percent and duty exemptions at 24.6 percent. The decline in FY2021 (4.9 percent of GDP) to FY2023 (4.2 percent of GDP) compared to FY2020 (6.2 percent of GDP) was actually a shift back to the average annual value of exemptions. FY2020 is noticeably higher as there were high values in temporary imports. Most of this was due to temporarily imported equipment that was consigned to HMAF.

[23] Customs Excise & Management Regulations 2008, and Customs (PACER PLUS) Regulation 2020.
[24] Income Tax Orders, Consumption Tax Orders, Custom Duty Orders, and Excise Tax Orders)
[25] Asian Development Bank Act, Bretton Woods Agreement Act, Diplomatic Relation Act, Electricity Act, International Organizations (Immunities and Privileges of Certain Officers) Act, Legislative Assembly Retirement Benefits Scheme (Amendment) Act 2020, National Reserve Bank of Tonga Act, National Retirement Fund Benefits Act, and Retirement Fund Act.

Two (2) vessels were valued at $44.0m and attracted high duties and taxes that were waived under our temporary import policy/law.

A-Figure 10: Tax Exemptions with share contribution by sector, FY 2019 – FY 2023



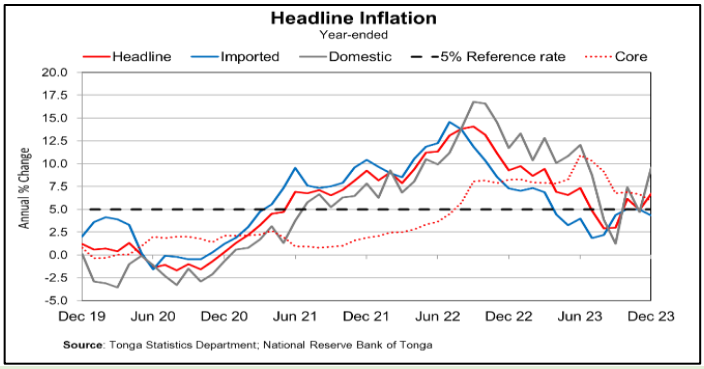
Source: MORC

The distribution of tax exemptions across sectors is depicted in ***A-Figure 10***, with the Electricity Supplier accounting for the largest share at 25.9 percent, followed by fuel and lubricants concessions at 16.4 percent, and development projects at 12.4 percent. The government remains committed to continue the review of the tax exemption policies in FY2025, building upon policy recommendations from similar reviews conducted by the International Monetary Fund (IMF) in 2020

8.3 Monetary and Financial Outcomes

1. Inflation

A-Figure 11: Inflation



Source: National Reserve Bank of Tonga

In the beginning of FY 2024, the headline inflation dropped to 4.6 percent and remained below the 5 percent threshold for three consecutive months. However, due to volatility in local food prices, headline inflation had breached the reference rate twice and stood at 6.7 percent in December 2023. On average, the headline inflation was 4.7 percent in the first half of FY 2024, lower than the 12.4 percent in the same period of the previous fiscal year. However, this slowdown was largely due to the base effects and supported by lower energy prices (fuel, electricity and LP gas). Meanwhile, the average core inflation rose to 7.8 percent in the first half of FY 2024 compared to 7.1 percent for the same period in the previous year as inflation broadened throughout the year.

Imported inflation fell and settled at 3.9 percent by the end of FY 2023. This was substantially lower compared to the 12.2 percent by end FY 2022 and its peak of 14.5 percent in July 2022. The average imported inflation for FY 2023 was 8.3 percent slightly lower than the 9.3 percent average in FY 2022. Imported inflation continued to ease by December 2023 due to declines in energy prices (fuel & LP gas) over the year. The main imported contributors to headline inflation were imported food items, international airfares, household items, clothing & footwear, and goods for personal care. While energy prices declined over the

year and reduced the imported inflation, prices for international airfares, imported food items, construction materials, alcoholic beverages, clothing & footwear, and goods for personal care remained elevated. Over six months to December 2023, imported inflation rose by 3.8 percent on average compared to an average of 11.1 percent in the same period of 2022.

On the contrary, domestic prices increased by 12.0 percent at the annual rate in FY 2023, higher than the 10.0 percent in FY 2022. The elevated domestic prices at the end of FY 2023 reflect the rebound in demand and spending by both households and businesses during the festive months of the year. Domestic prices rose by 12.8 percent on average in FY 2023 compared to 7.4 percent in FY 2022, reflective of the increased local food prices and broadened inflationary pressures. Domestic inflation was again high at 9.6 percent in December 2023 after falling to 4.8 percent in November from 11.7 percent in December 2022. The accelerated domestic prices in December 2023 were mainly due to a resurgence in the price of local food items. Over the year to December 2023, local food prices rose by 27.5 percent contributing 4.5 percentage points to the headline inflation. Other drivers for domestic inflation include catering services, local transport services, secondary school tuition fees, and labour cost. Meanwhile, lower electricity tariff over the year supported lowering inflation. In the first half of FY 2024, domestic prices averaged 5.9 percent compared to 14.1 percent in the same period in FY 2023.

Much of the key drivers of inflation are outside of the Reserve Bank's control such as local food prices, catering services, school fees, and international airfares. Though headline inflation is above its reference rate, the Reserve Bank is anticipating a downward trend for the headline inflation in 2024 and to return below the 5.0 percent benchmark in the near term. Nevertheless, the inflation forecast is highly prone to the high volatility in local food prices which may push inflation to remain above the 5 percent reference rate in 2024. Tonga's high susceptibility to other natural disasters, shocks on the global energy markets, and other external shocks also pose risks to the inflation outlook.

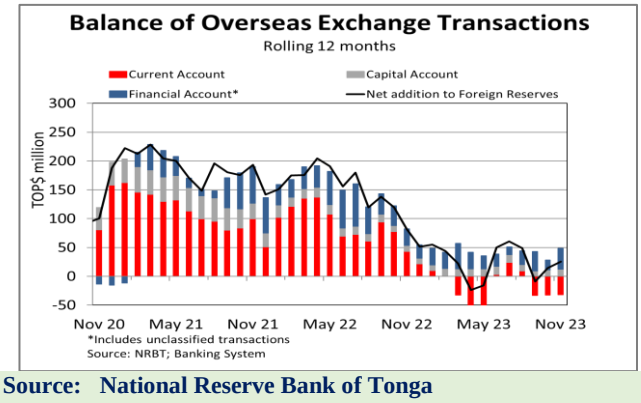
The latest data on headline inflation has eased to 3.6 percent in February 2024, was mainly driven by lower energy prices and improved local food prices.

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

The balance of the Overseas Exchange Transactions (OET) recorded an overall surplus of $25.8m over the year to November 2023 compared to a surplus of $82.3 m over the year ended November 2022. The net current account deficit solely contributed to this trend.

Current account: The current account recorded a deficit over the year to November 2023 of $174.0 m from the $43.2 m surplus recorded in the previous year. This stemmed from higher trade deficits and lower official transfers.

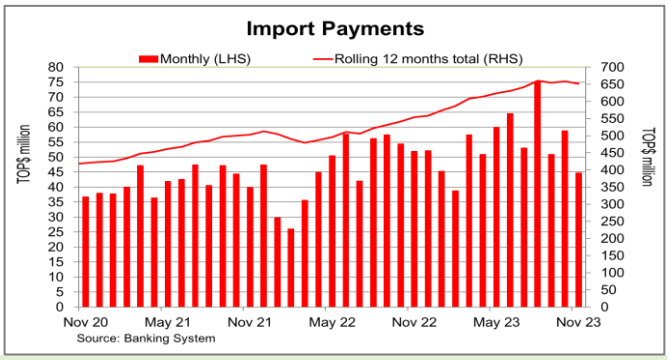
A-Figure 12: Balance of Overseas Exchange Transaction



Source: National Reserve Bank of Tonga

Import payments increased over the year to November 2023 by 17.7 percent ($97.9 m). Wholesale and retails import payments continue to lead the annual increase, followed by the Government imports and oil import payments. This coincided with the continuation of implementing development projects including infrastructure projects. The majority of the payments were paid in US dollars, which accounted to 50 percent of the total import payments.

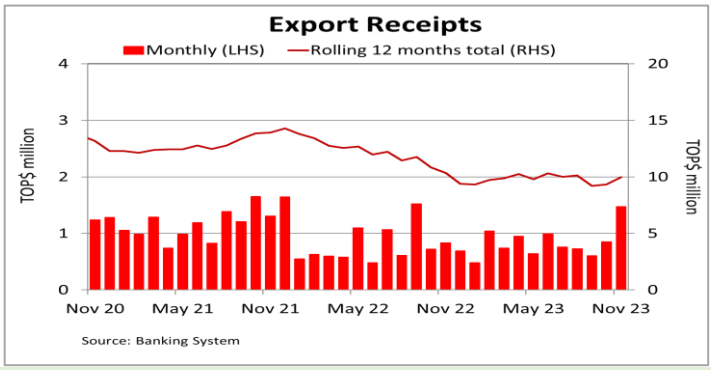
A-Figure 13: Imports Payment



Source: National Reserve Bank of Tonga

Export receipts decreased over the year to November 2023 by 3.6 percent ($0.4m) to $10.0m due to a decline in fisheries exports and other non-agricultural exports. Agricultural exports remained with the largest share for total export proceeds at 70.5 percent, fisheries/other marines followed by 22.0 percent and the remaining 7.5 percent from various other exports. However, the volume of agricultural exports increased over the year by 9.2 percent (679.1 tonnes), primarily driven by the increase in yams, cassava, taro and coconut. The discrepancy between export receipts and export volume may be reflective of channelling export receipts via remittances or travel receipts by non-commercial exporters. The volume of marine exports also increased over the year.

A-Figure 14:Export Receipts

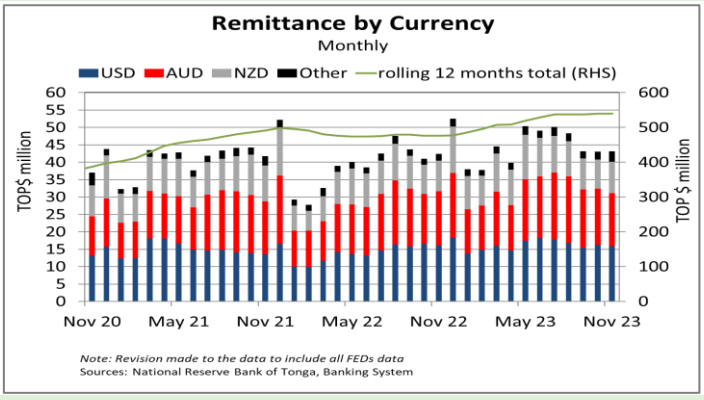


Source: National Reserve Bank of Tonga

The transfer account surplus of $651.7m for the year ending November 2023 is an increase from the $649.7m recorded in November 2022. The increase in private remittances offset the lower official transfer receipts during the year.

Remittance receipts rose significantly over the year to November 2023 by 13.3 percent ($63.3m) to $539.8m. The resumption of activities such as birthdays celebrations, school anniversary and church conferences following the double disasters in 2022 is anticipated to have contributed to the annual growth of remittances. This may have also been supported by the ease of inflation and the increased of real disposable personal income in our source remitting countries. Remittances as a share of GDP is estimated to have increased from 39.1 percent in the previous year to 44.3 percent as of November 2023. Foreign Exchange Dealers remain as the preferred channel for remittances, through which 89.1 percent of total remittances are transferred. Majority of remittance receipts are denominated in US Dollars, representing 36.2 percent of the total remittance receipts. Australian dollars followed with 36.0 percent and New Zealand Dollars with a 22.9 percent share of total remittance receipts.

A-Figure 15: Remittances by Currency



Source: National Reserve Bank of Tonga

The services account deficit narrowed over the year to $72.5m in November 2023 compared to the deficit of $91.9m in the previous year. This was supported by the full resumption of the international travel, boosting travel receipts to surge by 195.4 percent ($88.2m). This was also supported by an increase in receipts from other services by 7.8 percent ($6.0 m), mostly from professional & management and construction services.

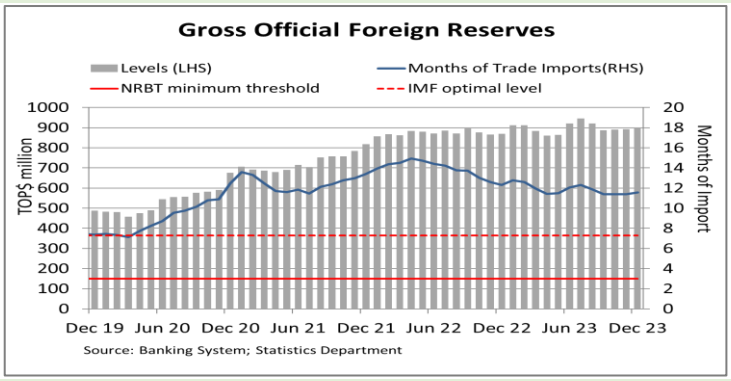
The capital account recorded a higher surplus of $12.3m compared to the $10.4m surplus recorded in November 2022. This stemmed from the increase in private investment projects, mostly from household constructions. This is also supported by the increase in official capital investments as the Government continues to implement development projects including for infrastructure.

Similarly, the financial account surplus widened by 58.5 percent ($16.8m) from the $28.7m surplus in the previous year. This was mostly due to the higher inflow of other investments mostly for interbank transfers.

3. Foreign Reserves

Gross official foreign reserves continued to increase over the year to December 2023 by $32.8m, reaching $901.7m. This is equivalent to 11.6 months of imports of both goods and services, above the recommended minimum threshold of 3 months of imports cover and the IMF prescribed level of 7.3 months of imports. Higher receipts of budget support, official grants and remittances continue to drive the annual growth. Foreign reserves are held mostly in USD, AUD, and NZD. Foreign reserves are expected to remain at comfortable levels in the near term to medium term. However, a sudden rise in import outflows, or steeper declines in official receipts and remittances, might pose a risk to this outlook on the foreign reserves.

A-Figure 16:Gross Official Foreign Reserves



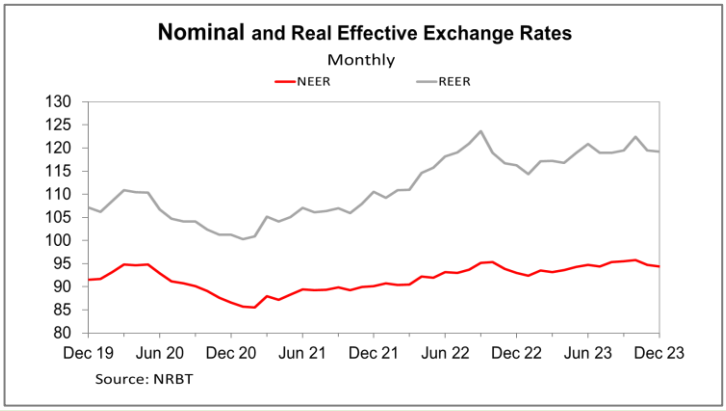
Source: National Reserve Bank of Tonga

Foreign reserves remain robust, exceeding the 7.5 months of import cover standing at $891.4m by February 2024, equivalent to 11.4 months of import cover.

4. Exchange Rates

The Tongan pa'anga strengthened against most of its major trading partners' currencies over the year to December 2023, except the Australian dollar, Euro and the British Pound. The nominal effective exchange rate index (NEER) increased over the year by 0.6 percent benefiting importers and other payments in foreign currencies. Similarly, the real effective exchange rate (REER) index also increased by 2.1 percent in line with the higher rate of inflation indicating a loss in Tonga's global trade competitiveness.

A-Figure 17:Nominal and Real Effective Exchange Rates



Source: National Reserve Bank of Tonga

Financial Sector Performance

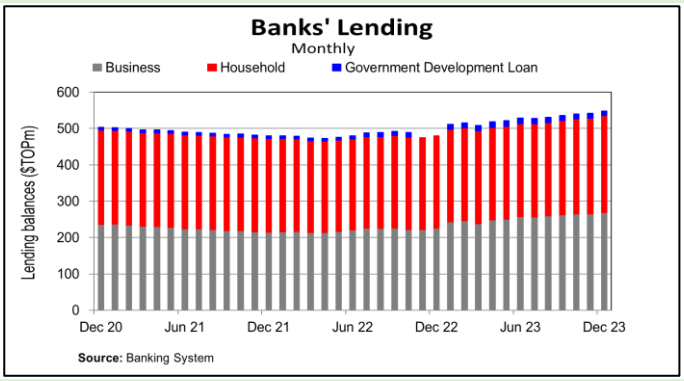
Banking System's Position

The stability in the banking system was maintained, supported by the bank's strong capital position and excess liquidity. Banks' balance sheets continued to grow with total assets increasing over the year to December 2023 by 3.6 percent ($43.0m) to $1.229 billion supported by an 8.7 percent credit growth. However, the asset quality of the banks was weakened over the year to December 2023, reflecting the deterioration in some of the large exposures in one bank. However, the Reserve Bank continues to work with the banks to continue to put measures in place to manage prudently their non-performing loans and ensure adequate provisions are in place. Total liabilities also grew over this period by 2.2 percent ($21.4m), largely driven by rises in demand and term deposit balances.

5. Lending Balance

Total bank lending grew by 8.7 percent ($42.0m) over the year to December 2023, due mainly to increasing loans to private businesses and individuals (i.e. mostly housing loans). When including the Government Development Loans (GDL), it over the period a little less by $41.9m (8.5 percent). This reflects the lower balance of the GDL by the end of 2023 compared to the previous year. However, total lending reached a record level of $535.2m by December 2023. Credit growth remains positive corresponding with the recovery in the Tongan economy. Lending to businesses (mainly for businesses within the manufacturing, transport, distribution, tourism and construction sectors) increased by $31.0m (13.1 percent). Household loans also rose by $11.0m (4.3 percent) due mainly to higher households' other personal and vehicles loans. The National Reserve Bank of Tonga anticipates credit to grow further as the economy continues to recover. However, total non-performing loans also significantly increased to 11.5 percent of total loans compared to 5.9 percent a year ago. Majority of these loans were business loans (73.8 percent) with the Reserve Bank working closely with the commercial banks to manage these accounts.

A-Figure 18: Banks' Lending



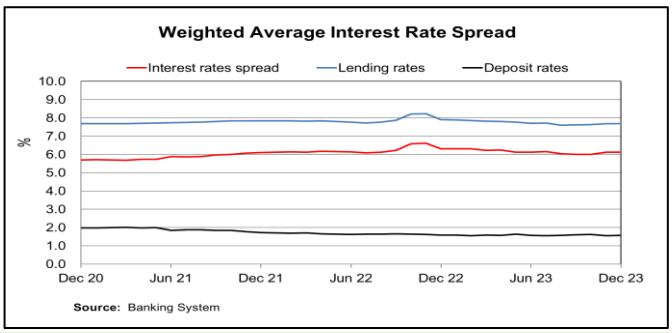
Source: National Reserve Bank of Tonga

6. Deposit Balance

The total banks' deposits increased over the year to December 2023 by $38.6m (4.4 percent) to $913.5m. Demand deposits rose by $39.6m (9.6 percent), underpinned by higher deposits from the Government, private businesses, individuals and non-profit organisations (churches). Time deposits grew by $20.2m (7.3 percent), reflecting the locking in for longer term some saving deposits by the Retirement Funds. Consequently, saving deposits fell by $21.2m (11.6percent), in line with the drawdowns made by the Retirement Funds.

7. Interest Rates

A-Figure 19:Weighted Average Interest Rate Spread

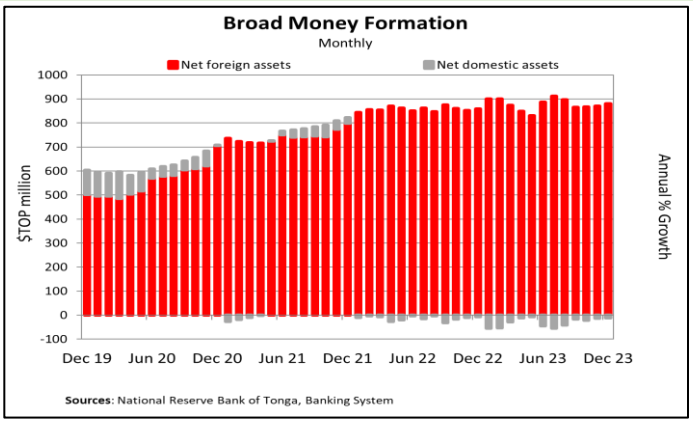


Source: National Reserve Bank of Tonga

The weighted average interest rate spread narrowed over the year to December 2023, by 19.0 basis points to 6.1 percent. The weighted average lending rate fell by 21.3 basis points driven by lower lending rates offered to businesses within the agricultural, constructions, and transports sectors along with household lending rates. Similarly, the weighted average deposit rate also declined by 2.2 basis points as both time and demand deposit rates decreased, reflecting the excess liquidity in the system.

8. Broad Money

A-Figure 20:Broad Money Formation



Source: National Reserve Bank of Tonga

Broad Money increased over the year to December 2023, by $12.4m (2.0 percent) to $868.1m. The receipts of budget support and donor funds to support Tonga's recovery from COVID-19 and HTHH reconstructions and higher remittances receipts pushed foreign reserves and net foreign assets higher. On the other hand, net domestic assets declined, due mainly to the rising government deposits from the receipts of these grants. Reserve Money however, declined annually by $1.2m (0.2 percent) to $611.9m, reflecting lower Exchange Settlement Accounts (ESA) by 16.1 percent from higher withdrawal made from the Reserve Bank vault and high import payments through the commercial banks. On the other hand, both the Statutory Reserve Deposits and the Currency in circulation increased, in line with the growth in deposits and higher demand for money.

9. Banking System Performance

Banks continue to be profitable, recording a Return on Assets (ROA) of 3.4 percent and a Return on Equity (ROE) of 13.4 percent in the year ended December 2023. Non-interest income increased by $9.4m (31.8 percent), mostly from foreign exchange dealings and other fees. Interest income also increased by $5.2m (16.2 percent), reflecting new loan disbursements, settlements and refinancing of loans during the year. During the year, the bank's asset quality in one of the big banks improved, and as a result loan loss provisions were written back which resulted in total loan loss provisions decreasing by $7.7m to $20.2m over the year. The banking system's capital position remained sound, with the risk-weighted capital ratio (RWCR) well above the statutory minimum requirement of 15 percent. The RWCR was at 30.9 percent at the end of December 2023 compared to 32.3 percent in December 2022. This was mainly due to a rise in the risk-weighted assets (credit growth).

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

10. Monetary Policy Stance

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

Although inflation is currently below the 5 percent reference rate, it is expected continue on that downward trend during 2024. Risks associated with the forecast are titled to the downside, local food prices was the main driver for the recent trend of high inflation and its volatility dictated how high or low headline inflation would be. High food inflation flows through to other major causes of inflation currently such as catering services and restaurants. However, the high food prices are mainly driven by low supply (mainly due to adverse weather conditions) that do not meet a growing demand. In addition, the current rising energy prices and other external shocks will put pressure on inflation. As such, the current monetary policy stance focuses on maintaining macroeconomic stability by keeping inflation below the reference rate and enhance access to financing for vulnerable sectors while ensuring financial stability.

Monetary policy actions are cantered on reducing cost of living while fostering economic growth. The policy tools will be reinforced by complementary supply side policies in coordination with the Government budget fiscal policies. Given the comfortable level of foreign reserves, and financial stability maintained to date, the Reserve Bank aims to address imbalances in key macroeconomic variables such as elevated cost structure, risks to employment, economic growth, and financial stability while remaining vigilant of further inflationary risks materializing. The Reserve Bank anticipates that supporting increased access to financing will avoid unnecessary slowdown in growth below potential and improve supply constraints that would in turn help lower core and non-core inflationary pressures.

The Reserve Bank in its Monetary Policy Statement February 2024 implemented the following policy instruments:

- Maintain monetary policy rate of zero percent.
- Maintain the Statutory Reserve Deposit ratio at 15 percent.
- Cease the deposit facility offered to the retirement funds which would support the banks' lending activities.
- Develop initiatives to provide access to more favourable exchange rates for targeted groups such as exporters and remittance recipients.
- Collaborate with Government agencies to align monetary and fiscal policy, particularly in reducing inflation, and coordinating price control measures to break the cycle of high inflation with low growth.
- In addition to the above, National Reserve Bank of Tonga will also pay particular attention to strengthen the prevention and detection of serious financial crimes, such as fraud, corruption, and terrorism financing.

8.4 Tonga Selected Indicators

A- Table 25:Tonga Selected Indicators, FY 2015-2022

Tonga Selected Indicators, 2014/15 - 2021/22

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

1/ **Sources** for Output and Prices: Statistics Department & MOF GDP forecasting (f) for 2019/20
2/ **Sources** for Money, Credit,BOP, Foreign Reserves & Exchange Rates: NRBT
3/ **Sources** for Total Debt : MOF

Annual Average Consumer Price Index for 2019 - 2023, Base Period (September 2018 = 100)

	All Items	Food and non-alcoholic beverages	Alcohol beverages, tobacco and kava	Clothing and footwear	Housing, water, electricity and gas	Furnishing, household equipment and household maintenance	Health	Transportation	Communications	Recreation and culture	Education	Restaurants and hotels	Misc. goods and services	Imported Items	Local Items
Weight.	100.0	39.8	11.6	2.1	10.8	3.2	0.3	16.4	5.2	1.1	2.2	3.1	4.2	55.1	44.9
2019	100.1	100.9	97.7	102.6	100.2	101.0	100.0	96.9	100.3	103.6	104.2	108.2	99.5	99.6	100.7
2020	99.7	102.8	98.0	109.2	95.0	102.4	100.0	92.1	100.3	103.6	104.8	108.2	100.5	100.7	98.6
2021	105.4	110.2	99.9	113.7	100.7	104.5	100.0	101.1	99.9	103.6	104.8	109.5	104.2	107.6	102.6
2022	116.9	121.1	101.7	115.0	128.2	109.0	107.5	120.6	100.5	103.6	104.8	118.6	112.0	119.1	114.2
2023	124.3	133.7	103.9	120.4	127.9	114.1	119.7	125.2	102.3	108.8	114.3	136.8	116.9	124.6	124.1

Source: Statistics Department

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

Annual Percentage Change in CPI for December month 2019 - 2022

	All Items	Food	Housing	H/Hold goods	Clothing and footwear	Transportation	Tobacco and Alcohol	Misc. Goods & Services	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
2019	1.2	6.0	12.6	3.6	2.0	5.3	17.4	-2.1	7.4	3.0
2020	0.3	6.0	12.6	3.6	2.0	5.3	17.4	-2.1	7.4	3.0
2021	9.1	6.0	12.6	3.6	2.0	5.3	17.4	-2.1	7.4	3.0
2022	9.2	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, 2015/16 - 2022/23

INSTITUTIONAL SECTOR	2015/16		2016/17		2017/18		2018/19		2019/20		2020/21		2021/22		2022/23	
	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%
Private Sector	29,533	96.1	33,489	92.3	23174	96.4	27721	96.3	39821	97.1	36036	98.7	33590	98.4	28261	92.0
Government Sector	22	0.1	429	1.2	71	0.3	161	0.6	869	2.1	68	0.2	534	1.6	2411	7.9
Quasi-Government Sector	1,188	3.9	2,368	6.5	783	3.3	904	3.1	339	0.8	400	1.1	19	0.1	44	0.1
TOTAL	**30,744**	**100**	**36,286**	**100**	**24,028**	**100**	**28,786**	**100**	**41,029**	**100**	**36,504**	**100**	**34,143**	**100**	**30,716**	**100**

Source: Statistics Department

Exports by HS Section, 2015/16 - 2022/23

HS Code SECTION ITEM	2015/16		2016/17		2017/18		2018/19		2019/20		2020/21		2021/22p		2022/23p	
	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%
Live Animals;Animal Products	8,489	27.6	10,385	29	5,456	22.7	8,907	30.9	14,140	34.5	9,605	26.3	7,311	21.4	6,773	25.5
Vegetable Products	14,774	48.1	18,999	52.4	16,335	68.0	16,872	58.6	20,286	49.4	22,307	61.1	22,901	67.1	15,479	68.0
Prepared Foodstuff; Beverages, Tobaacco	1,103	3.6	276	0.8	384	1.6	209	0.7	161	0.4	559	1.5	399	1.2	73	0.2
Products of the Chemical Or Allied	520	1.7	208	0.6	153	0.6	415	1.4	172	0.4	410	1.1	61	0.2	41	0.2
Wood and Articles of Wood;	1,770	5.8	666	1.8	660	2.7	20	0.1	516	1.3	1,134	3.1	1,610	4.7	1,615	6.1
Miscellaneous Manufactured Articles	130	0.4	165	0.5	53	0.2	50	0.2	158	0.4	12	-	120	0.4	14	-
Works of Art, Collectors Pieces and Antiques	24	0.1	23	0.1	111	0.5	14	-	7	-	-	-	1	0.0	2	-
Other Exports	3,933	12.8	5,564	15.3	876	3.6	2,299	8.0	5,589	13.6	2,477	6.8	1,740	5.1	6,721	-
TOTAL	**30,744**	**100**	**36,286**	**100**	**24,028**	**100**	**28,786**	**100**	**41,029**	**100**	**36,504**	**100**	**34,143**	**100**	**30,716**	**100**

p: provisional numbers

Source: Statistics Department

Exports by Country of Destination, 2015/16 - 2022/23

COUNTRY	2015/16		2016/17		2017/18		2018/19		2019/20		2020/21		2021/22		2022/23	
	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%
New Zealand	6,748	21.9	8,810	24.3	5,999	25.0	9,096	31.6	11,136	27.1	15,693	43.0	14,310	41.9	10,577	36.0
Australia	4,636	15.1	8,352	23.0	2,863	11.9	2,601	9.0	3,925	9.6	3,176	8.7	2,510	7.4	5,448	19.0
Fiji	471	1.5	657	1.8	44	0.2	76	0.3	273	0.7	292	0.8	276	0.8	1,108	3.8
Mainland USA	10,484	34.1	8,064	22.2	5,964	24.8	7,077	24.6	8,498	20.7	6,199	17.0	6,685	19.6	5,209	18.1
Samoa	433	1.4	327	0.9	179	0.7	442	1.5	1,034	2.5	175	0.5	189	0.6	87	-
Japan	4,064	13.2	4,616	12.7	1,799	7.5	1,691	5.9	2,529	6.2	522	1.4	809	2.4	2,370	8.2
Korea	1,543	5.0	2,061	5.7	5,667	23.6	2,747	9.5	3,488	8.5	1,370	3.8	3,080	9.0	1,473	5.1
Singapore	2	0.0	-	-	59	0.2	-	-	15	0.0	78	0.2	61	0.2	35	0.1
American Samoa	546	1.8	430	1.2	263	1.1	791	2.7	2,247	5.5	1,208	3.3	475	1.4	1,009	-
Hong Kong	59	0.2	12	0.0	7	0.0	17	0.1	80	0.2	2,106	5.8	2,520	7.4	132	0.5
All other Countries	1,757	5.7	2,957	8.1	1,184	4.9	4,248	14.8	7,804	19.0	5,685	15.6	3,228	9.5	3,270	9.2
TOTAL	**30,744**	**100**	**36,286**	**100**	**24,028**	**100**	**28,786**	**100**	**41,029**	**100**	**36,504**	**100**	**34,143**	**100**	**30,716**	**100**

Source: Statistics Department

Imports by Institutional Sector, 2015/16 - 2022/23

INSTITUTIONAL SECTOR	2015/16		2016/17		2017/18		2018/19		2019/20		2020/21		2021/22		2022/23	
	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%	(T$'000)	%
Private Sector	423,299	88.5	437,008	85.9	469,903	88.0	487,059	86.4	429,947	79.7	528,858	91.0	502,539	91.6	593,324	89.8
Government Sector	23,984	5.0	31,787	6.3	24,399	4.6	16,856	3.0	80,240	15.3	29,383	5.1	16,125	2.9	45,933	6.8
Quasi-Government	31,057	6.5	39,732	7.8	39,566	7.4	59,862	10.6	32,439	5.0	22,623	3.9	29,988	5.5	23,908	3.4
TOTAL	**478,340**	**100**	**508,527**	**100**	**533,868**	**100**	**563,777**	**100**	**542,626**	**100**	**580,864**	**100**	**548,652**	**100**	**663,165**	**100**

Source: Statistics Department

Imports by Main HS Section, 2015/16 - 2022/23

HS Code SECTION ITEM	2015/16 (T$'000)	%	2016/17 (T$'000)	%	2017/18 (T$'000)	%	2018/19 (T$'000)	%	2019/20 (T$'000)	%	2020/21 (T$'000)	%	2021/22 (T$'000)	%	2022/23 (T$'000)	%
1.Live Animals;Animal Products	48,347	10	53,023	10	60,542	11	55,638	10	52,617	10	77,014	13	72,291	13	71,662	11
2.Vegetable Products	14,588	3	15,142	3	17,630	3	18,513	3	17,283	3	24,285	4	19,043	3	21,299	3
3. Prepared Foodstuff; Beverages & Tobacco	68,575	14	81,580	16	74,511	14	61,244	11	66,737	12	91,749	16	77,764	14	98,795	15
4. Mineral Products	83,105	17	77,515	15	111,259	21	108,850	19	109,167	20	84,648	15	107,425	20	126,615	19
5. Products of the Chemical or Allied	20,121	4	18,599	4	20,956	4	22,299	4	21,863	4	29,860	5	30,849	6	33,168	5
6. Wood and Articles of Wood	16,433	3	20,128	4	20,361	4	20,584	4	18,445	3	23,852	4	14,303	3	22,620	3
7. Pulp of Wood and Other Fibrous Cellulosic Material	12,276	3	9,076	2	9,322	2	13,374	2	8,849	2	9,047	2	10,126	2	12,108	2
8. Base Metals & Articles of Base Metal	26,629	6	38,251	8	29,216	5	35,659	6	28,754	5	31,336	5	28,318	5	40,506	6
9. Machinery and Mechanical Appliance	83,461	17	76,997	15	78,780	15	106,734	19	85,352	16	95,751	16	78,120	14	87,683	13
10. Miscellaneous Manufactured Articles	13,515	3	15,204	3	17,151	3	15,068	3	11,709	2	14,393	2	13,962	3	19,658	3
11. Vehicle, Aircraft,Vessel & Associated, Transport Equipment	50,360	11	46,989	9	46,906	9	56,303	10	81,286	15	47,846	8	44,810	8	63,155	10
12. Works of Art, Collectors Pieces	37	-	6	-	4	-	16	-	7	0	50	0	21	0	246	0
13. Other Imports	40,895	9	56,017	11	47,229	9	49,495	9	40,557	7	51,033	9	51,619	9	65,650	10
TOTAL	**478,340**	**100**	**508,527**	**100**	**533,868**	**100**	**563,777**	**100**	**542,626**	**100**	**580,864**	**100**	**548,651**	**100**	**663,165**	**100**

Source: Statistics Department

Imports by Country of Origin, 2015/16 - 2022/23

COUNTRY	2015/16 (T$'000)	%	2016/17 (T$'000)	%	2017/18 (T$'000)	%	2018/19 (T$'000)	%	2019/20 (T$'000)	%	2020/21 (T$'000)	%	2021/22 (T$'000)	%	2022/23 (T$'000)	%
New Zealand	140,074	29	155,900	31	156,775	29	151,889	27	155,149	29	174,916	30	146,285	27	164,337	25
Australia	31,277	7	38,716	8	35,923	7	40,127	7	36,641	7	56,015	10	42,298	8	53,882	8
USA	40,074	8	52,201	10	49,116	9	65,288	12	70,082	13	57,034	10	59,708	11	60,865	9
China	66,129	14	40,242	8	51,932	10	49,599	9	43,771	8	56,390	10	73,134	13	87,538	13
Indonesia	8,174	2	8,185	2	8,929	2	8,063	1	8,198	2	13,742	2	11,639	2	12,699	2
Fiji	50,024	10	40,126	8	44,481	8	40,227	7	41,521	8	49,591	9	42,381	8	55,620	8
Japan	32,339	7	52,818	10	38,824	7	55,417	10	42,640	8	34,902	6	28,871	5	47,285	7
Singapore	54,531	11	77,459	15	82,307	15	98,667	18	101,557	19	71,713	12	95,561	17	117,108	18
Others	55,718	12	42,880	8	65,581	12	54,500	10	43,067	8	66,561	11	48,774	9	63,831	10
TOTAL	**478,340**	**100**	**508,527**	**100**	**533,868**	**100**	**563,777**	**100**	**542,626**	**100**	**580,864**	**100**	**548,651**	**100**	**663,165**	**100**

Source: Statistics Department

Tonga Real Sector Development, 2014/15 – 2020/21

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

p - provisional estimates
Source - Statistics Department

Tonga Balance of Payment: FY 2015 – FY 2022

(T$m, unless otherwise indicated)	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22p
Balance of Trade	**-289.9**	**-301.2**	**-332.7**	**-387.9**	**-424.4**	**-399.3**	**-454.5**	**-499.1**
Exports, f.o.b.	16.0	19.1	23.7	20.9	19.3	17.9	12.8	12.0
of which: Squash exports	*1.8*	*3.7*	*4.3*	*5.5*	*3.6*	*5.4*	*1.5*	-
Imports, f.o.b.	305.9	320.3	356.4	408.8	443.7	417.2	467.3	511.1
Services (net)	**-6.2**	**17.3**	**27.0**	**32.3**	**32.2**	**18.8**	**-25.2**	**-79.0**
Receipts	100.4	139.1	169.7	199.0	204.3	184.0	88.3	98.5
of which: Tourism receipts	*63*	*84.1*	*108.8*	*111.2*	*129.4*	*108.1*	*20.7*	-
Payments	106.6	121.8	142.7	166.7	172.1	165.2	113.5	177.5
Income (net)	**13.6**	**5.6**	**-16.1**	**-7.7**	**8.7**	**5.6**	**22.0**	**30.5**
Receipts	26.2	22.2	17.7	24	25.8	25.8	44.2	47.9
Payments	12.6	16.6	33.8	31.7	17.1	20.2	22.2	17.4
Current Transfers (net)	**215.5**	**301.0**	**364.9**	**382.6**	**381.3**	**428.2**	**570.9**	**616.7**
Official transfers (net)	41.0	78.9	85.4	82.3	87.8	123.8	162.7	175.0
Private transfers (net)	174.5	222.1	279.5	300.3	293.5	304.4	408.2	441.7
Official transfer receipts	43.1	82.6	87.9	91.1	91.5	128.2	166.8	178.9
Official transfer payments	2.1	3.7	2.5	8.8	3.7	4.4	4.1	3.9
Private transfer receipts	221.1	279.9	334	358.4	359.3	370.6	479.3	504.3
Private transfer payments	46.6	57.8	54.5	58.1	65.8	66.2	71.1	62.6
Current account balance	**-67.0**	**22.7**	**43.1**	**19.2**	**-2.2**	**53.3**	**113.2**	**69.1**
(Percent of GDP)	*-7.9%*	*2.4%*	*4.2%*	*1.8%*	*-0.2%*	*4.7%*	*10.6%*	*6.1%*
Capital account balance	**67.2**	**15.2**	**29.8**	**40.6**	**42.1**	**22.2**	**40.9**	**14.1**
Official capital (net)	8.9	7	9.7	16.37	22.0	11.2	26.2	3.0
Official capital inflows	13.5	7.0	9.8	17.2	22.5	11.6	26.3	3.9
Official capital outflows	4.6	0.0	0.1	0.9	0.5	0.4	0.1	0.9
Private capital (net)	58.3	8.2	20.1	24.2	20.1	11.0	14.7	11.1
Private capital inflows	75.5	10.5	22.7	27.4	22.0	11.7	15.4	11.9
Private capital outflows	17.2	2.3	2.7	3.2	1.9	0.7	0.7	0.8
Other items (net)	-14.2	-43.8	-81.8	-59.5	-56.1	-55.6	-66.8	-1.8
Overall balance	**-14.0**	**-5.9**	**-8.9**	**0.3**	**-16.2**	**19.9**	**87.3**	**81.4**
Memorandum items:	222.9	323.9	375.8	407.1	422.2	452.6	567.7	568.2
Service, income, and transfers (net)	599.7	802.6	928.2	1,020.2	1,027.4	1,088.4	1,152.2	1,266.0
Receipts	390.8	523.8	609.3	672.5	680.9	708.6	778.6	829.6
Payments	167.9	199.9	233.5	265.4	258.7	256.0	210.9	261.4
Gross official foreign reserves (TOP million)	289.7	354.9	407.9	468.7	484.3	543.8	715.2	871.2
Months of Import cover (trade estimate)	8.1	7.2	7.5	8.0	7.9	9.2	11.8	14.4

Source: National Reserve Bank of Tonga

Tonga: Monetary Survey: FY 2015 – FY 2022

(T$m, unless otherwise indicated)	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22p
Net foreign assets	285.9	338.2	409.9	456.1	475.1	549.9	705.0	804.8
Foreign assets	297.1	373.3	434.4	483.7	507.6	574.0	758.7	912.0
Foreign liabilities	-11.2	-35.1	-24.5	-27.6	-32.5	-24.1	-53.7	-107.2
Net domestic assets	62.0	53.6	26.0	26.1	16.0	-53.5	-112.7	-128.6
Net domestic credit	206.0	247.0	278.0	275.6	278.8	248.4	201.9	164.2
Government (net)	-26.9	-29.4	-51.5	-90.7	-117.1	-158.4	-190.0	-204.6
Non-financial public enterprises	41.8	40.4	42.8	49.1	52.2	61.6	50.3	46.0
Private sector	191.1	236.0	286.7	317.2	343.7	345.2	341.6	322.8
Non-monetary financial institutions 1/	-3.9	-3.8	-4.2	-6.0	-5.1	-4.0	-4.1	-4.2
Other items (net)	-140.1	-189.6	-247.8	-243.5	-257.7	-297.9	-310.5	-288.6
Total domestic liquidity (M2)	348.0	391.8	436.0	482.2	491.0	496.4	592.4	676.1
Narrow money (M1)	188.2	216.5	237.9	238.6	258.6	246.0	330.5	394.1
Currency outside banks	45.4	48.5	61.9	70.3	70.3	71.4	94.8	108.6
Demand deposits	142.7	168.0	176.0	168.4	188.3	174.6	235.8	285.5
Quasi money	159.8	175.3	198.1	243.5	232.4	250.4	261.8	282.0
Savings deposits	49.7	59.4	63.8	73.2	79.6	87.8	99.4	119.4
Term deposits	98.6	103.7	124.4	154.0	142.3	156.0	155.0	159.5
Foreign currency accounts	11.5	12.2	9.8	16.3	10.5	6.6	7.4	3.2
Annual Percentage Change								
Net foreign assets	10.6	18.3	21.2	11.3	4.2	15.7	28.2	14.2
Foreign assets	10.5	25.6	16.4	11.3	4.9	13.1	32.2	20.2
Foreign liabilities	9.8	213.4	-30.2	12.7	17.8	-25.8	122.8	99.6
Net domestic assets	9.9	-13.5	-51.5	0.4	-38.7	-434.4	110.7	14.1
Private sector	4.1	23.5	21.5	10.6	8.4	0.4	-1.0	-5.5
Total domestic liquidity (M2)	10.5	12.6	11.3	10.6	1.8	1.1	19.3	14.1
Narrow money (M1)	23.7	15.0	9.9	0.3	8.4	-4.9	34.3	19.2
Quasi money	-1.8	9.7	13.0	22.9	-4.6	7.7	4.6	7.7
In US dollars								
Net foreign assets	135.6	153.2	187.1	200.6	208.8	239.8	313.4	343.1
Foreign assets	140.9	169.1	198.3	212.7	223.1	250.3	337.2	388.8
Foreign liabilities	-5.3	-15.9	-11.2	-12.1	-14.3	-10.5	-23.9	-45.7
Memorandum items:								
Velocity (GDP/average M2)	2.4	2.4	2.3	2.2	2.4	2.3	1.8	1.7
Exchange rate (pa'anga per U.S. dollar; end period)	2.1	2.2	2.2	2.3	2.3	2.3	2.2	2.3

Source: Tonga Statistics Department

ANNEX II: RECONCILIATION BETWEEN THE GFS AND ESTIMATES FOR FY 2025

9.1 Alternate Classifications of Financial Transactions (Government Finance Statistics, GFS)

Conventionally, the estimates of receipts and payments in the appropriation bill have been based on the cash basis of accounting, meaning transactions are recorded as funds flow into, within, and out of the Government of Tonga's bank accounts. Receipts are recognized in the period they are received, and payments are accounted for when funds are disbursed from these accounts. This system has now transitioned to an accrual basis. The presentation of the government's accounts in this form primarily ensures that funds can be legally spent and are used for their intended purpose. This classification system forms the foundation for effective cash planning and management.

However, the government has also adopted the Government Finance Statistics (GFS) basis as an option for presenting budget estimates. The GFS system classifies financial transactions to facilitate the study of their macroeconomic impact on the economy and assesses the sustainability of fiscal policy objectives. Specifically, it separates 'below the line' transactions, such as those related to raising or repaying loans, which primarily serve to finance a shortfall in government revenues.

The GFS classification system categorizes inflows associated with loan repayments by the Government as net lending within the expenditure and net lending category, rather than as government revenue. It consolidates expenditures for similar purposes, enabling the presentation of information on total resources allocated by the Government to those purposes and allowing for international comparisons regardless of local administrative structures.

A- Table 26: Reconciliation Table between GFS and Estimates FY 2025

Reconciliation between Cash Inflows to the Government of Tonga Fund and Budget Revenues	Budget Estimate 2024/25	
Inflows to the Government of Tonga Fund		**379,940,100**
Plus Inflows to other Funds		
Budget Support	72,350,000	
Donor Inkind	234,985,200	
Donor Cash Aid	211,920,700	519,255,900
Total Inflows *(as per Estimates)*		**899,196,000**
Less Inflows classified under Non-financial assets		
receipts from disposal of Fixed & Non-fixed assets		85,200
Less Inflows classified under financial transactions		
receipts from disposal of Financial Assets	13,362,800	
External Financing	-	
Domestic Financing	15,000,000	
		28,362,800
Total Revenues *(as per GFS Presentation)*		**870,748,000**
Reconciliation between Cash Outflows from the Government of Tonga Fund and Budget Expenditures		
Outflows from the Government of Tonga Fund		**379,940,100**
Plus Outflows from other funds		
Budget Support	72,350,000	
Donor In-kind	234,985,200	
Donor Cash Aid	211,920,700	519,255,900
Total Outflows *(as per Estimates)*		**899,196,000**
Less Outflows classified as offsets to expenditure		
acquisition of Non-financial assets/liabilities	232,850,700	
Less Outflows classified as financing transactions		
payment for acquire of Financial Assets	9,200,000	
External Financing	46,133,900	
Domestic Financing	15,809,000	
		303,993,600
Total Expense *(as per GFS Presentation)*		**595,202,400**

Source: Ministry of Finance (MOF)

ANNEX III: REVIEW OF THE GPA FY 2024 AGAINST SDG AND TSDF TARGETS

10.1 SDG AND TSDF TARGETS

In November 2015, Tonga undertook a process to align the seventeen SDGs to the seven National Outcomes of the TSDF II 2015 – 2025 through RAPID Integrated Assessment (RIA), which also aimed to review Tonga's readiness to implement the SDGs. An integrated approach promotes coherence across elements of sustainable development – social, economic and environmental.

This process allowed for stakeholder consultation and consideration of SDG priorities in a Tongan context. Through these considered and elaborate processes, integration of the social, environment and economic pillars of sustainable development have been integrated into the seven National Outcomes of the TSDF II, thus reinforcing a sound platform for Tonga's implementation of its national development agenda, in sync with the 2030 Development Agenda. ***A-Table 27*** shows the outcome of the alignment discussed.

The 2015 alignment process paved the pathway for future alignment, as various national models and approaches are being used when countries engage in the contextualization process. With the endorsement of the implementation plan of the 2050 Strategy for the Blue Pacific Continent, Governments are considering the level of readiness to apply the same principles and practices to this new Pacific vision based on previous

experience with mainstreaming and localization. A-Table 28 shows the results of the alignment of the 2050 Blue Pacific Strategy to the TSDF II 2015 – 2025

Within the national planning cascading system, the Government Priority Agenda (GPA) followed the same alignment process conducted in 2015, as shown in *A Table 28*. In this regard, one can identify the suitability with respect to their national context and situation based on the availability of resources, expertise, and the robustness of their processes, institutions and systems.

In the alignment process, Tonga started by adopting sixty-nine SDG indicators and integrating relevant aspects in applicable documents. Through joint partnership between the Prime Minister's Office and the Tonga Statistics Department launched data validations and reality checks and have confirmed additional 21 indicators, bringing up the total for Tonga to ninety (90) SDG indicators that are now integrated into Tonga's national monitoring system.

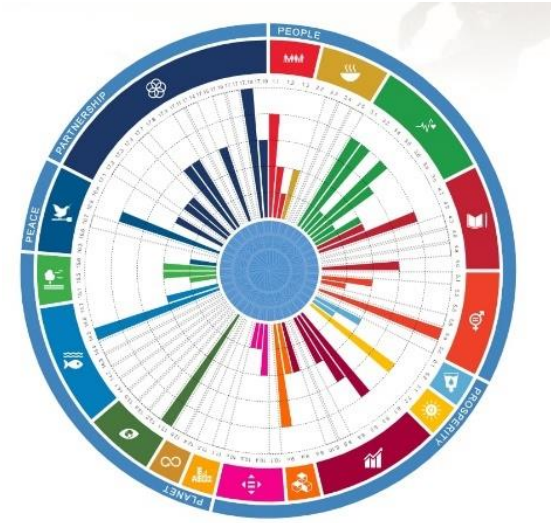
Overall, Tonga has performed well based on tracking progress using Tonga's priority SDG indicators, in all areas of Tonga Strategic Development Framework II (TSDF II) and its alignment with the 17 SDGs. Table 1 below highlights specific SDG targets that were achieved in 2019, SDGs 2, 3, 17 and 2023 SDGs 3, 5, 13, 14, 15, 17.

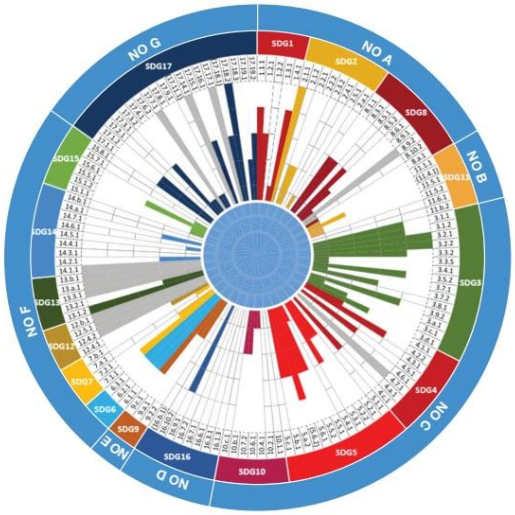
A- Table 27: Sustainable Development Goals mapped to Tonga Strategic Development Framework II 2015-2025

Tonga Strategic Development Framework II 2015-2025 National Outcomes	Sustainable Development Goals (2015 - 2030)
A. More inclusive, sustainable and dynamic, knowledge-based economy	**Goal 1**: End poverty in all its forms everywhere **Goal 2**: End hunger, achieve food security and improved nutrition and promote sustainable agriculture **Goal 8**: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all; **Goal 10**: Reduce inequality within and among countries;
B. More inclusive, sustainable, and balanced urban & rural development across island groups	**Goal 11**: Make cities and human settlements inclusive, safe, resilient and sustainable
C. More inclusive, sustainable and empowering human development with gender equality	**Goal 3**: Ensure healthy lives and promote well-being for all at all ages **Goal 4**: Ensure inclusive and equitable quality education promote lifelong learning opportunities for all **Goal 5**: Achieve gender equality and empower all women and girls; **Goal 10**: Reduce inequality within and among countries
D. More inclusive, sustainable and responsive good governance	**Goal 16**: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
E. More inclusive, sustainable and successful provision and maintenance of infrastructure	**Goal 9**: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation **Goal 7**: Ensure access to affordable, reliable, sustainable and modern energy for all
F. More inclusive, sustainable and effective land & environment management and resilience to climate & risk	**Goal 12**: Ensure sustainable consumption and production patterns **Goal 13**: Take urgent action to combat climate change and its impacts; **Goal 14**: Conserve and sustainably use the oceans, seas and marine resources for sustainable development; **Goal 15**: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss; **Goal 6**: Ensure availability and sustainable management of water and sanitation for all **Goal 7**: Ensure access to affordable, reliable, sustainable and modern energy for all
G. More inclusive, sustainable, and consistent advancement of our external interests, security and Sovereignty	**Goal 17**: Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

Source: Prime Minister's Office (PMO)

A-Figure 21: SDG Alignment to TSDFII Progress Report 2019 & 2023 (2019 (left) and 2023 (right))





	BAR TYPE	VALUE
	Grey Bar	Tier 3 indicator. No established methodology
	Dashed Bar	None, or insufficient country data
	No colour bar	No achievement against the goal
	20% of colour bar shaded	Minimal achievement
	40% of colour bar shaded	Some achievement
	60% of colour bar shaded	Average Progress
	80% of colour bar shaded	Good Progress
	Full colour bar	Goal is fully achieved

Source: PMO

A- Table 28: Alignment of the 2050 Blue Pacific Strategy to the TSDF II

2050 Blue Pacific Strategies: Thematic Area	Tonga Strategic Development Framework II 2015 - 2025	Government Priority Agenda (GPA)	Indicators
1) Political Leadership and Regionalism	A, F, G	9: Strengthen bilateral engagement with accredited partner countries	
2) People Centred Development	C, F	2: Reduce relative poverty and increasing quality of services for social protection 3: Mobilising national and international response to effectively reduce supply and the use of Illicit drugs and address harms reduction 4: Improving education for all, focussing on safer schools, addressing drop outs, gender equality and increasing employable trainings for both local and overseas opportunities 5: Improving access to quality and affordable healthcare system focusing on COVID19, NCD, and preventative measures	
3) Peace and Security	C, F, G	3: please to GPA above	
4) Resource and Economic Development	A	7: Creating of trade opportunities from regional and international trade agreements focussing on agriculture, fisheries, handicrafts, tourism and promoting of value addition and product diversification and simultaneously reduce technical barriers to private sector development and heavy reliance on imports	
5) Climate Change and Disaster	F	1: Building resilience and safer platforms to natural disasters and meeting the ongoing challenges of Climate Change and address economic crisis	
6) Ocean and Environment	E, F	6: Building quality and easy access to government services	
7) Technology and Connectivity	E	6: please refer to 6 above 8: Improving quality and access to public infrastructures to support national resilience and inclusive growth	

10.2 Thematic Area 1: National Resilience

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

- **Housing Policy, Climate Change Policy, Disaster Risk Financing Strategy, Health Policy /MOH CP, National Social Protection Policy, Ocean Bill, Tonga Housing Recovery and Resilience Policy**

The aim and focus are to ensure that the economy is resilient. The policy intends to make Tonga climate-resilient by 2035 and enhance mitigation efforts. It seeks to ensure that all homes, schools, and communities are resilient, including roads, coastal areas, and buildings. The transport system aims to reduce reliance on fossil fuels, with a transition towards renewable energy sources. Efforts are underway to increase the share of renewable energy in the transport sector, with a goal of achieving significant progress towards sustainability. A portion of land in Tonga, approximately 30.0 percent, is earmarked for agroforestry or forestry projects, promoting biodiversity and sustainable land use practices. Coastal communities are implementing special management areas to protect and preserve the coastal environment, contributing to the overall conservation efforts in Tonga.

a). Ongoing implementation of the HTHH Reconstruction Recovery Project

- Continuing the efforts by the Government for the post-HTHH reconstruction projects, there have been minor updates on the number of households affected and the efforts completed by the Government with the focus on building back better and enhancing the standard of living of affected communities.

- For **non-residential buildings**, the ongoing construction by the Nippon Foundation is estimated to be completed by April 2024. This includes the ‘Atata Si’i (Kanokupolu), Mango (Ta’anga) and the Kanokupolu (Matatoa) constructions. There are also non-housing constructions for ‘Ohonua, Lofanga, Mo’unga’one and Fonoifua that have all been submitted for procurement process. Finally, the Government house for Nomuka is in the design and drawings phase.

- For the **redundancy cable** works:
    - The agreement was signed in December 2023 and ongoing collaborations between the parties mainly to do with preparatory works with getting orders in place, consultants/staffing in place, permits applied for and funding ready for disbursement.

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

- NDRMO continues to **digitise the Initial Damage Assessment (IDA) questionnaire** in collaboration with the UNDP and UN Office for Coordination of Human Affairs (UN-OCHA). It creates an online platform that will provide timely accurate information for quick decision making after disasters especially within 72 hours. The **World Tsunami Awareness Day** was held on November 3, 2023, with a major national drill in which over 1,500 students participated. This is aiming to increase community familiarity with the drill procedures, particularly among vulnerable groups such as children.

- **Tonga Safer & Resilience School Project (TSRSP):** This project has 2 components which are: i). ***Tsunami School Package 1 (US$1.0m):*** Te’ekiu and Kanokupolu: contracts were signed on the 28th of September 2023 and kick-off meeting on site in November. Both contractors are mobilising materials and equipment,
    - ’Atele dormitories (US$2.0m): contract was signed on 28th September and contractors are already at the site. Targeted completion is the end of February 2024,
    - ‘Eueiki and Kolomotu’a are finalising the designs and go to the market January 2024, Ha’apai/Nomuka (Tupouto'a) – boundary peg completed, map develop for signing, schedule to be completed by end of January 2024,
    - Maamaloa – Likely lease arrangement will be completed after mission in February 2024 and PMU proposed strategy is to complete all designs, then go to market once the lease arrangement is confirmed,
    - Maamafo’ou – boundary peg completed, map develop for signing, schedule to be completed by end of January 2024

ii). Upgrade Curriculum (CDU): all activities in this component are tracking well such as Firm for Curriculum Upgrade for Government Schools (US$1.6m), Assessments and EMIS.

- **PREP (Pacific Resilience Project**) updates:

  ***Component 1*:** Meteorology Services and NDRMO building contract signed in October 2023, the site has been established and insurance in place and the construction commencing. Phases 1 and 2 of Marine Communications, Seismic and Volcanic systems, Impact of Based Forecasting and Integrated Forecasting Platform, Multi Hazard Early Warning System (MHEWS) ICT, Cell Broadcasting, MHEWS Policy and the continue Disaster Drills; *Components 2 & 3* are completed.

- Prior to the COP 28 meeting in Dubai, MEIDECC achieved the ambitious milestone of **planting 1 million trees** to meet the zero-carbon emission target under the Nationally Determined Contribution (NDC). The Ministry of Agriculture, Forestry and Food is currently undertaking tree planting project that will lead to the planting of another 1 million trees.

c. Climate Change

The ADB Trust Fund is the primary fund for Climate Change related projects, operations and activities. In the FY 2024, the fund has been accessed for several operations and activities, Resilience and Climate change. Such operations include.

- The Department of Climate Change (DCC) is currently implementing National Tree Planting. This activity was one of Tonga's obligations under the Paris Agreement. It was a non-emission target of establishing a forest inventory as a prerequisite to identify a Green House Gas (GHG) emission for the 2025 Tonga's Second Nationally Determined Contribution (NDC) and planting one m trees by December 2023.
- The procurement of water tanks for villages under progress through a grant which was approved by the Irish Trust Fund for Building Climate Change and Disaster Resilience in the Small Island Developing States (ITF) on 18 March 2020.
- Upgrade of latrines to lavatories for vulnerable households to improve access to resilient, safe and secure water supply and sanitation services.
- In terms of the FY 2024 recurrent budget, $0.8m was allocated to the Climate Change Department under MEIDECC, largely for the compensation of their staff members and operations, of which 75.0 percent is expected to be utilized by the end of year and remaining are savings largely from unfilled vacancies and delay in the engagement of consultants.

Key Policies and Development Project Details

Housing Policy

The Housing Recovery and Resilience Policy (2020) continue to guide government in building back better (BBB) principles and housing risk reduction for recovery efforts. Much of this work is reflected from the HTHH reconstruction of residential homes, non-residential facilities and buildings that are currently implemented.

- **Residential housings:** The recovery reconstruction for HTHH is currently ongoing and is expected to be completed by the end of June 2024. A total of 286 households were initially identified to be affected by the HTHH tsunami, **however, 260 households were verified to be reconstructed.** To date, **113 household have been completely reconstructed, which include 5 for Kotu, 17 for Tungua, 4 for Ha'afeva, and 2 for Lifuka;** in addition, Tonga Red Cross contributed to payments for the outer-island beneficiaries' contribution.

- **Community Halls/Evacuation Centres:** The construction of Feletoa hall was completed in December 2023.

- **Safe and Resilient Schools:** A core component of the Safe and Resilient Schools that is in line with the Housing Resilience Policy involves building climate-proof measures for resilient education facilities and ensuring the reduction of disaster and climate vulnerability for education. The Project is currently constructing two out of the 10 schools destroyed by the HTHH tsunami in Kanokupolu and Te'ekiu in addition to the Tonga College dormitory.

Health Infrastructure

The Government in its effort to ensure its health infrastructure is resilient to future pandemics has upgraded its existing health facilities such as Kolovai, 'Uiha, and Kauvai, and upgraded Pea and Vaini to Super Clinics.

Climate Resilience

- **National Water Tank Project**

The National Water Tank Project will ensure a sustainable supply of sufficient and good quality of water to all Tongans. The Project has distributed about more than 9,000 water tanks across Tonga while ongoing works is linked to the supply of water tanks under the Affordable Housing Project and the UNDP Gov4Res Project on risk-informing water tanks for 7 schools (Government & Non-Government) in Tongatapu.

- **Green Climate Fund (GCF) - Readiness Projects**

The GCF Readiness Programme will provide resources for Tonga in strengthening its institutional capacities for National Designated Authorities (NDAs) and Direct Access Entities under the GCF, to efficiently engage with Funding for climate finance. There are 5 readiness programmes implemented by MEIDECC, Ministry of Fisheries, Civil Society Forum of Tonga, and the Natural Resources Division under the Ministry of Lands. These programmes cover various scopes on programmes for climate change by ensuring capacity is well covered across a wide sector for Tonga.

Integrated Urban Resilience Project

To minimize the risk of flooding in low-lying areas around Nuku'alofa areas, Tonga integrated Urban Resilience Project funded by the ADB is addressing these problems and has completed the preparation of detailed drainage improvement designs and to continue with the implementation.

Coastal Protection Project

The Coastal Protection Project aims to strengthen Tonga's resilience to the impact of climate change in alignment to the JNAP 2 and its adaptation actions. The project will reduce the vulnerabilities of coastal communities to climate hazards through the construction of a 4m coastal protection measure where 2.3 km of rock revetment to be installed between the villages of Makaunga and Nukuleka, and 1 km of overtopping protection for the Manuka and Kolonga shoreline. The project is currently in its initial stage and is expected to proceed with the works in the upcoming FY 2025.

Energy Infrastructure

Nuku'alofa Network Upgrade Project (NNUP)

The project is expected to reduce technical power losses and climate vulnerability of electricity in Nuku'alofa, which comprise the component of installing climate- and disaster-proofing of the Nuku'alofa electricity network lines and expected to benefit 1,240 customer connections and establishments for 59 new households. Works have been completed for Tu'atakilangi and Kupolu areas.

Generator Set

A generator set was also provided by the Government of Australia to improve the current energy generation service of Tonga Power Limited and to avoid multiple issues of faulty equipment. The

generator set will address lingering effects from the HTHH to the existing generators. This is also one priority under the National Infrastructure Investment (NIIP).

Transport Infrastructure

The Tonga Climate Resilience Transport Projects (I & II) intend to improve the climate resilience of Tonga's transport sector, particularly in rehabilitating and constructing roads, wharves, and airport runways. Rehabilitating of Loto Road (Matahau to Liahona), Liku Road ('Utulau to Fua'amotu), Taufa'ahau Road (Hoi to Kolonga), Leimatu'a to 'Utula'aina, and Leimatu'a to Tefisi, Vava'u, 'Ohonua and Houma Road in 'Eua.

Disaster Risk Management

The Pacific Resilience Project continues implementation with its purpose to strengthen early warning systems, resilient investments, and financial protection of Tonga from disasters and similar events. The Seismic Hut Equipment upgrade (5) is completed for Tongatapu, Vava'u, Ha'apai, Niuatoputapu and Niuafo'ou. There are two parts to the Coastal Radio Network whereas the construction of the foundation at 10 sites footings for guyed masts with 8 out of 10 Marine Coastal Radio stations distributed throughout Tongatapu including refurbishment of seismic station in Folaha, Hihifo- Ha'apai, Mt Talau-Vava'u, installation of coastal radio receiver site at 'Atele, and tide gauges at Nafanua Harbour and Nomuka Ha'apai.

The National Disaster Risk Management Office (NDRMO) is guided by the Tonga Strategic Emergency and Disaster Risk Management Roadmap (2021-2023) emphasizing the goal to achieve a functioning emergency operating centre for emergency coordination and communications systems for safer communities through excellence in emergency and disaster risk management. This support includes the National Early Warning System (NEWS) which completed its retention period in 2023 with testing and monitoring of sirens. For the upcoming FYs, an early warning system installation intends to be rolled out to the outer islands targeting those who have not accessed the systems.

Economic Resilience - Parametric Insurance

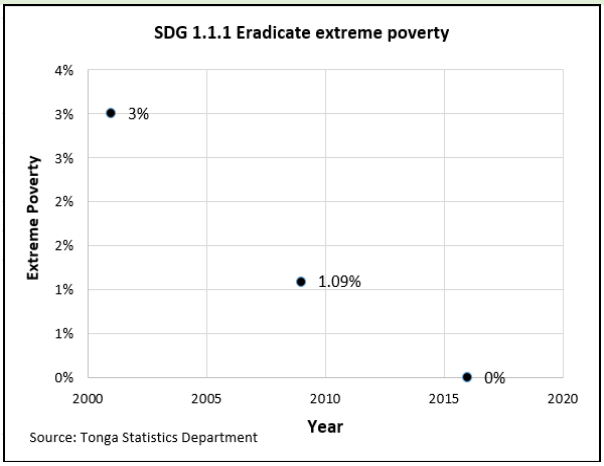
The Disaster Financing Risk Strategy (2021) guides the Government economic resilience strategy for Tonga in response to the impacts of disasters, climate change, shocks, pandemic, externalities and other related events. The Government is ready on-hand to access Disaster Response Facilities under the World Bank Catastrophe Deferred Drawdown Options (CatDDO), Pacific Disaster Resilience Program from the Asian Development Bank, and the parametric insurance under the Pacific Catastrophic Risk Insurance Company (PCRIC). As for the PCRIC, the government is facilitating premium payments for this current FY and to continue to do so in the upcoming FY. The PREP Project is currently implementing actions for the DRFS that include completed training for relevant government ministries in identifying and quantifying disaster-related collection of data, a development of an Adaptive Social Protection policy in January 2024, including development of a Disaster Risk Management policy framework.

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

TSDF II High Level Key Performance Indicator

The percentage of the population in this category decreased from 3.0 percent (2001), 1.0 percent (2009) and 0.0 percent (2016). This builds from improved collaboration through consultative and outreach programs with key stakeholders such as businesses, public services and especially the community reflecting that there is a better enabling environment and improved access to economic skills across the Kingdom. The last available figure from the HIES, 2016 indicates that the SDG 1.1 Target has already been met (value=0).

A-Figure 22:SDG 1.1.1: Eradicate extreme poverty



Source: TSD

a). Policy measures to strengthen social protection through providing ongoing support:

- A home modification pilot will be tested, and work on the affordable supply of necessary supplies, devices and equipment to enable successful ageing in place will be carried out.
- A new project signed between the Ministry of Internal Affairs and the Asian Development Bank worth US$16.18m to build 3 community-based aged care centres in Tongatapu with one in Vava'u. The Project has 3 outputs:
  - Output 1: Community-based and climate-resilient aged care centres established.
  - Output 2: Aged care services and programs implemented.
  - Output 3: Caregiver support and measles to recognize, reduce, and redistribute the caregiving responsibility implemented.

- Below are details of the ongoing Government Lifeline Tariff Discount Scheme:
  1. Government continued to subsidise the "Lifeline Tariff Discount Scheme" in FY 2024 at the Tonga Power Limited with effect from the 1st July 2023.
  2. Continuation of government subsidisation of $0.108 applied to residential customers whose unit of consumption is less than 150kWh, effective on the 1st July 2023.
  3. Discontinue the subsidization of $0.03 applied to residential and non- residential customers whose unit of consumption is above 150kWh, effective on the 1st July 2023.

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

- The Ministry of Agriculture showed significant efforts in implementing the "Food Security Preparedness Program for the Corona-virus Pandemic" as well as the recovery and rehabilitation for all those affected by the HTHH volcanic eruption through ashfall:
  - The assistance distributed were 4,000 tractor hours (278 hours/constituency) of subsidize ploughing.
  - ○ Supply of planting materials.
  - ○ One tractor from China's Aid, 500 litres of diesel and planting material to Nomuka island.
  - ○ Provision of maize and bean seeds from SPC directly to farmers of Tongatapu, 'Eua and Ha'apai, Vava'u and the Niuas.
  - ○ Vegetable seedlings were raised by the Research, Forestry and Extension Division and distributed 14,561 trays (60 seedlings per tray) of seedlings to the people of Tongatapu for recovery.

- ○ Provision of vegetable seeds to the MORDI Project and Tonga National Youth Council and some commercial farmers in Tongatapu.
- ○ Provided about 14,962 two-weeks-old Broiler and Layer chicks to the villages of Tongatapu, ‘Eua, Ha’apai, Vava’u and the Niuas.

- Humanitarian Cash Transfers of $1.5m funding is expected to be distributed to support 3,000 beneficiaries from affected areas in Tongatapu, 'Eua and Ha'apai, to recover from the impacts of the recent natural disasters.

Housing Support

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

Development Project Details

Skills & Employment for Tonga (SET Project)

The Skills and Employment for Tongan project continues to support the Tonga National Social Protection Policy by paying school fees to secondary school children in households who are facing financial hardship to still be able to still access education. The total number of beneficiaries was 3,585 students (1874 female and 1711 male) from 1949 households, with 1,848 from Tongatapu, 824 from Vava’u, 450 from Ha’apai, 337 from Eua, and 126 from the Niuas. In 2024, 257 students graduated from Form 7, while 105 students transitioned to TVET and tertiary levels while remaining in school.

Integrated Aged Care

The project aims to support the Tonga National Social Protection Policy to increase coverage and access to social protection programs through an appropriate, safe, and high-quality integrated care center that provides services for higher quality of life experienced by older people in Tonga. The government has confirmed the locations for these facilities and also recruited the Project Management Unit and the Design and Supervision firm to commence with the designing of the aged care facilities.

Tāpanekale (Affordable) Housing Project

The Tapanakale Project is targeting to reduce the extreme poverty groups as determined by the Household Income Expenditure Survey 2016 (3.1 percent of the population living in the extreme poverty group) to ensure that ‘no one is left behind’. The Project will help fulfil necessities, including the construction of appropriate shelters and strengthening of existing dwellings with proper sanitation facilities and water tanks. The project has begun with 7 households in Tongatapu who have confirmed land ownership.

Tonga Pathway for Employment

This project is developed to pick schools that are in line with the National Social Protection Policy and aim at poor and vulnerable households with secondary education. The design of the project is near completion focusing on improving high school education outcomes among students from the poorest and most vulnerable families (soft landing for SET project) including strengthening the National Social Registry and enhancing the employability of secondary education graduates to facilitate their transition to the labour market through a first formal employment experience or supporting a startup opportunity.

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

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

- Outlines below are the projects that being funds from the $5m allocated for the **Illicit Drugs Funds**:
    - **Supply Reduction**: Commissioning of the New combined stations for Police and Fire Emergency Station **in *Ha'asini*** was held in December 2023. The government continues to construct the next station in ***Houma, Tongatapu in*** early 2024 then ***Leimatu'a*** Station, ***Vava'u*** in late 2024.
    - **Demand Reduction: *Returnees' policy*** – An allocation of $60k in FY 2024 aimed to support the ongoing activities currently undertaken by the (6) existing NGOs in relation to support returnees. At this stage, request for assistance from this service provider (NGO) is now open for consideration by an establish oversight committee, chair by the PMO and MIA.
    - **Harm Reduction:**
        - Construction of **Hu'atolitoli Security Fence** budgeted at TOP$1.5m, is underway with 100 newly recruited staff of the HM Prison included as workers for the construction of the security fence due to its urgency.
        - Continue the construction of the **Female Prisoners** to commence in the last quarter of the FY 2024;
        - Tonga Police received a **Forensic Electronic Fingerprinting Equipment and a vehicle** donated from the People Republic of China (PRC). These in-kind assistances and it's an updated high-technology equipment will make the work of Tonga Police more efficient.

Support to His Majesty's Armed Forces (HMAF)

Ongoing support to HMAF from various development partners includes, but not limited to: Completion of the Fangatongo Military Base (Vava'u) the ongoing progress of the leadership Centre at Touliki naval base together with the ongoing trainings to overseas workshops and support for fuel and maintenance of ships.

Drug and Alcohol Treatment - Programme

The Programme aims to establish a service for the treatment of drug and alcohol addiction in Tonga. There is also a lack of mental health services in the country and the program will look into building the capability of social service providers in the country.

Tonga Police Development Program

The Program focuses on capacity building through people development, information management, corporate development, and intelligence and investigations. The strong focus on infrastructure has resulted in new and upgraded facilities and equipment including the 'Akau'ola facility within the Tonga Police Headquarters in Longolongo to support more efficient and effective policing. Support to community policing initiatives and training new and existing police officers is ongoing for enhanced engagement with communities and improved policing skills.

10.2 Thematic 2: Quality Services and Affordability

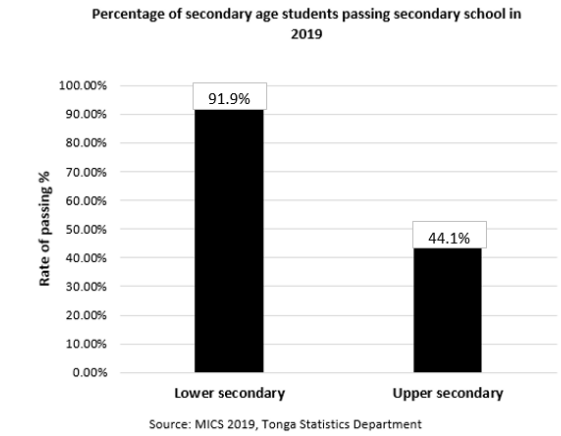
GPA 4: Improving education for all, focusing on safer schools, addressing drop-outs, gender equality and increase employable trainings for both local and overseas opportunities.

GPA 4 Review of Performance FY 2023

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

TSDF II High Level Key Performance Indicator

A-Figure 23: Percentage of secondary age students passing secondary school

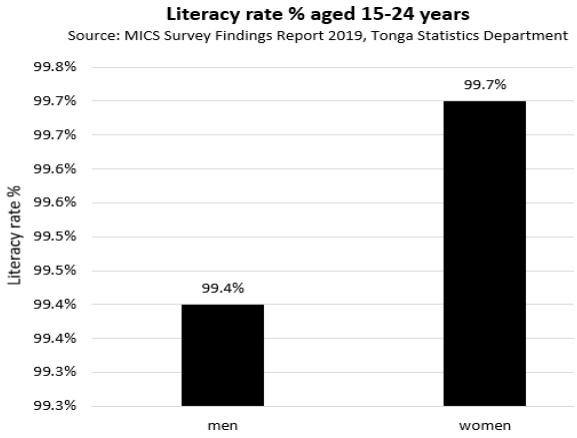


Source: TSD

For lower secondary school, grades are referred to as form 1 to form 4 and in upper secondary to form 5 to form 7. The school year typically runs from January to December of the same year. The total number of children of **lower secondary school** age at the beginning of the school year was 1,173 (male 564, female 609). The **upper secondary school** age at the beginning of the school year was about 883 (male 431, female 452). This came up to 2,056 secondary age students. The completion rate for lower secondary (form 1-4) was 91.9 percent and 44.1 percent for upper secondary (form 5-7). It is expected by 2025 (TSDF target) to achieve a target at 95 percent or above of completion rate for Secondary education from form 1-7.

Tonga's literacy Rate (15-24yrs)

A-Figure 24: Literacy rate (%) aged 15-24 years in 2019



Source: TSD

The youth literacy rate (able to read and write) in both English and Tongan language in Tonga as of 2019 remained above the TSDF Target at 99.4 percent and 99.7 percent in both sexes, respectively. This represents 499 men and 1,124 women. The ages of 15-24 years range from pre-school education, primary education, secondary education, tertiary education up to technical and vocational education.

a) Scholarships, Subsidies and the Tonga National University

- The total number of ECE students enrolled in 2023 was about 2,782 (8 percent) of the total student enrolments in ECE, primary and secondary school. MET is targeting to build 9 new classrooms for ECE (government) in 2025.[26]
- The following 6 institutions were merged under TNU are Tonga Institute of Education (TIOE); Tonga Institute for Higher Education (TIHE); Tonga Institute of Science and Technology (TIST); Tonga Maritime Polytechnic Institute (TMPI); Queen Salote Institute of Nursing and Allied Health (QSINAH) and the Tonga Police College (TPC). The University has Faculty of Education,

[26] MET M&E Framework FY 2023/24-2025/26

Arts and Humanities, Faculty of Science and Technology, Faculty of Nursing and Health Science, Faculty of Business and Public Administration, National Centre for Climate Change and Energy.[27] TNU delivers 52 programs, including 5 Degrees, 29 Diplomas, 18 Certificates and Trades Programs.

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

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

- **Progress of EMIS system**: The firm hired by MET (Community Systems Foundation - CSF) in January 2023 continues to perform according to the contract schedule. MET requested for additional funds to procure more tablets for data inputs by teachers, as well as data packages for the operation of tablets.
- **Component 1 - Ha'apai schools (delayed):** This activity has Lot 3 (Tungua, Nomuka, Fonoi); and Lot 4 (Tupouto'a, Maamaloa, Maamafo'ou). Under the Lot 3, there are Preliminary Findings Reports submitted and feedback provided on the 8th of February with final versions expected on 13th February and works to commence by May/June 2024. For Lot 4, scoping reports are still not received, and works are unlikely to commence before June/July 2024.
- **Component 1 Progress under Tsunami works package 1 (Kanokupolu and Te'ekiu)**; Te'ekiu signed a contract with the Ca'bella Construction and works to commence on December 23, 2024 while Kanokupolu has signed a contract with T-Construction and implementation of works delayed due to 'Atele Dormitory works.
- **Component 1 Progress under Tsunami works package 2 ('Eueiki and Kolomotu'a)**: Eueiki has a current budget estimate of TOP $1.3m for 2 staff and 9 students. Kolomotu'a design reports and Draft bid documents received based on 1 x large WASH, 1 staff Quarters.

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

- **Save the Children Project:** It has confirmed earlier this year, that this **Hama e-Learning** platform has a zero rating policy for accessing the HeLP through Digicel Tonga Internet services. This means that all residents of Tonga using Digicel services can now access the Help Platform for educational purposes without incurring any data charges. GPS Nakolo and GMS Ha'asini primary schools benefited from this by deploying and installing smart TVs and laptops in both schools and Beulah Primary School were also pleased to receive this equipment from the PMU team (MET).
- During the first quarter of the current FY, the Ministry of Education and Training has spent 28 percent of its annual allocation of $63.0m, with 47 percent on staff related compensations, but also the commencement of providing free nutritious breakfasts to students in primary, government middle and early childhood schools.
- In collaboration with the Government of Tonga, Tonga Chamber of Commerce and Industries (TCCI) and 'Ahopanilolo Technical Institute (TTI) are preparing to launch the **Tonga Apprenticeship Pilot Program** in March of this year. The Government of Tonga Growth Committee and ILO are funding contributing entities.

Tonga Safe and Resilient Schools Project : The Tonga Safe and Resilient Schools Project will support better education for all by improving the Education Management Information System (EMIS). The EMIS system has been set up and customized with the training for trainers completed in 2023. The trainers will be rolling out training for all schools with payments for licensing to be made for the duration of the project. Training for teachers in Tongatapu has been completed while Vava'u, Ha'apai and 'Eua are scheduled to be completed in April 2024. The revision of the curriculum is currently in draft stages for class 1 to 6 and a team of experts from the United Kingdom is expected to arrive in Tonga in April 2024 to review the drafted curriculum (Stage 2).

[27] TNU website: Tonga University (tnu.edu.to)

Skills and Employment for Tongan (SET): The Project comprises a component that supports and aligns the Education policy Framework for the skills development of Tongans under the Technical Vocational Education and Training (TVET) programme to make them more competitive in the global and domestic labor market. In 2024, 257 students graduated from Form 7, while 105 students transitioned to TVET and tertiary levels while remaining in school.

Queen Salote Nursing School: The Project aims to preserve, extend, and disseminate knowledge in Tonga through the provision of higher quality education. This links to constructing a facility that aims to provide academic, technical, and vocational training and continuing education for nurses that is responsive and appropriate to the needs of the people of Tonga. This Project will construct the old nursing school facility at Vaiola Hospital, which is led by the Tonga National University. The design and the contracting of the construction company have been completed in preparation for the construction.

Technical Vocational Education Training (TVET) Facility: In line with the Tonga Education Policy Framework 2004-2019, the TVET Facility Project is to upgrade existing facilities to improve access to quality of post-basic education and to provide academic, technical and vocation training in continuing education for the needs of the people of Tonga. The Project is expected to begin in the upcoming FY 2025 targeting Tonga College, Fokololo ‘o e Hau Technical Institute, and other relevant schools.

Inclusive Education Programme: The Inclusive Education Programme continues to support inclusive access to education for all Tongans. The Project with support from the University of Auckland, targets to improve education outcomes for children and young people with disabilities by increasing access to high-quality, inclusive education. The program has been ongoing since 2021 and its expected completion in 2026. One of the most important activities of the Programme in 2024 is 'Tupu', a program aimed at building teaching capacity in inclusive education that will collaborate closely with the Ministry of Education and Training, school leaders, and teachers to create an enabling, supportive and inclusive environment for teaching and learning.

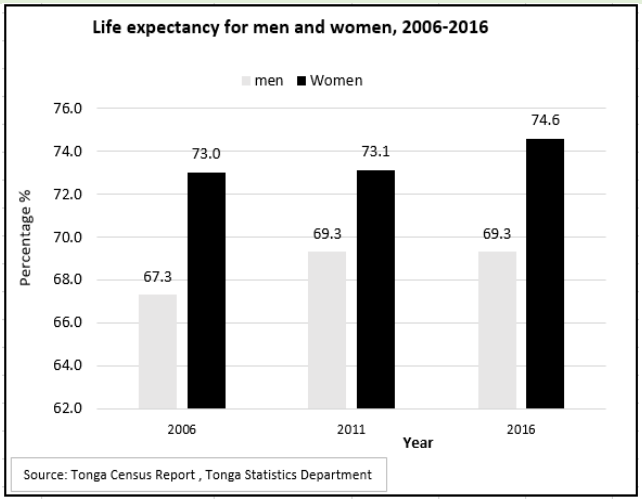
GPA 5: Improving access to quality and affordable healthcare system focusing on COVID-19, Non-Communicable Diseases (NCDs) and preventative measures

TSDF II High Level Key Performance Indicator

Life expectancy

The statistics show the average life expectancy at birth in Tonga from 2006 to 2016, by men and women. In 2016, life expectancy at birth of 69.3 years for males and 74.6 years for females. This compares to 69.3 years and 73.1 years respectively in 2011 Census analysis, showing no mortality increases for males and an increase of 1.5 years for females. By 2025 (TSDF Target), it is expected for men to reach 75 years and 71 years for women.

A-Figure 25: Life expectancy for men and women, 2006-2016



Source: TSD

Mortality Rate

The achievements under mortality rate and Neonatal mortality rate were attributed to activities led by the Ministry of Health such as Assessment and Monitoring of Child-Health after birth. These include Breastfeeding (Post-natal) which targeted to monitor the number of postnatal

visits at >70 percent in 2025. Another activity spearheaded by the Reproductive Health Department is promoting Exclusive Breast-feeding and Post-Natal Care as part of implementing the Global Acceleration Plan to stop Obesity. This included developing a Baby-Friendly Hospital in collaboration with Obstetrics and Gynaecology. This is targeted to maintain at least 80 percent Exclusive for 4 months and 70 percent for 6 months.

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

- **Systems Strengthening for Effective Coverage of New Vaccines in the Pacific Project:** All three new vaccines, Pneumococcal conjugate vaccine (PCV), rotavirus vaccines (RV), and human papilloma virus vaccines (HPV) have been rolled out in Tonga and are now part of the **routine immunization program**. PCV and RV were launched in September 2021, as of Q2 '23, coverage are PCV2 (77percent), PCV3 (75percent) RV2 (77percent); HPV was launched November 2022 and coverage is 20.9 percent amongst girls 10-17 years old.

b). NCD: Healthy Lifestyles and Preventative Measures

- **Tonga Health Grants and Sponsorships** approved include: 69 Sponsorships with valued less than TOP$2,000 awards to community groups in Tongatapu (15 awards), 'Eua (6), Ha'apai (13) and Vava'u (28) and Niuatoputapu (3). Most of these Sponsorship awards supported physical activity interventions and community gardening (supporting healthy eating behaviours) 19 Grants valued greater than TOP2,000. These large grants support health promotion interventions in Communities (15) and schools (4). The 4 grants for actions in Schools include the Canteen improvements for the 'Apifo'ou College, the 2023 Health Promoting Schools Awards for recognizing schools who achieved the accreditation standards at Bronze, Silver, Gold and Platinum levels. The awards ceremony is yet to take place. The Grants to community groups support the distribution of vegetables and fruit tree seedlings by private sector nurseries to various community groups and schools who grow these in their gardens. Feedback received from the recipients noted that they are saving money by growing and eating their own produce instead of buying them from the market. TongaHealth is also engaging trained Zumba Instructors to conduct community zumba activities.
- In 2015, the probability of dying from cardiovascular disease, cancer, diabetes, or chronic respiratory disease between the ages of 30 and 70 years was 24.1 percent compared with the regional average of 17.1 percent. This result from insufficient coverage, especially from managing chronic diseases and a lack of quality data to plan effectively for appropriate health service provision.
- **Ministry of Fisheries subsidizing of fish:** The total cost of fish bought from fishing vessels for this activity was TOP$0.78m. Tuna – 505mt landing and 25mt *(Relevancy also to GPAs 1, 2 and 7).* The Ministry of Fisheries oversees, implements, reviews, and monitors the implementation of MOF Project to address non-communicable disease (NCD) in Tonga. A total of 20.9 metric tons of tuna sold (July-Sept) and 54 tons of fish sold (Oct-Dec) in 2023 under this project.

c). Health infrastructure and other health priorities

- For Universal Health Coverage & Others - the Outturn is $15.7m resulting from the **completion of the Central Pharmacy Warehouse's construction** in this FY. The new Pharmaceutical & Medical Facility located at Veitongo was funded by New Zealand aid to assist with the Ministry of Health proper storing of drugs and medical equipment. In addition, **significant upgrade and maintenance works to the main Vaiola hospital and the district health centres** were also completed during the first quarter.

d). Health Insurance Scheme

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

Non- Communicable Diseases

The Support for a Multi-Sectoral Response to the NCD Crisis from World Bank aligns with the Tonga National Strategy for the Prevention and Control of Non-Communicable Diseases (2021-2025) aiming to guide and consolidate Tonga's efforts to prevent and reduce NCDs over the next five years.

Health Corridors Programme

The programme focuses on expanding reliable access to safe, affordable medicines in the Pacific, support for mental health, cancer control, pandemic preparedness, and addressing NCDs. The programme is currently ongoing with support on pharmaceutical management capability, implementing data management software, and improving essential medicines lists and alignment of medical procurement systems across Polynesian countries including Tonga. The programme is ongoing and is expected to be completed by 2025.

Sector Support: Pacific Sexual Reproductive Health & Rights (SRHR) 2020 - 2024

The SRHR provides support for sexual and reproductive health and rights in the Pacific through the International Planned Parenthood Foundation and Tonga Family Health Association through the Ministry of Health. The programme is expected to be completed by the end of 2024.

Medical experts & Overseas medical treatment scheme

This exchange programme is supported by the Government of New Zealand to increase the capacity of the Ministry of Health in the provision of additional medical specialists to Vaiola Hospital. The contract has been signed in early 2024 for the medical experts to arrive in-country to commence support over the next 5 years at the Ministry of Health. As for the Overseas Medical treatment scheme, it is an ongoing annual programme supported by the Government of New Zealand to the Ministry of Health for patients needing overseas medical referral.

E-Health Project

The eGovernment aligns to Tonga's commitment for a health sector focus to implement a digital health solution to better manage patients and collect data for better decision-making and reporting for universal health coverage. The Project is aligned to Tonga's National Health Strategic Plan (2015-2020). The Project is currently in the final stages of developing the Digital Health and Strategy Policy with maintenance support services to be further provided for Vaiola Hospital, Niu'eiki Hospital, and 7 other health centers in Tongatapu for a new Health Information System (HIS). The project has trained 657 health staff members on using the (HIS), and it has also integrated standalone system that is operational in 24 healthcare facilities.

Health Infrastructures

Central Pharmacy Warehouse

The construction of the Central Pharmacy Warehouse was completed in 2023 with the purpose of supporting the Covid-19 Masterplan. This provides a safe storage of pharmaceutical supplies given the inadequate space available at the Vaiola location, but also supports the Ministry's COVID-19 preparedness and response activities.

Vava'u Hospital Reconstruction

- The Vava'u hospital reconstruction is an initiative that the Government prioritizes to improve the access to quality and resilient health services in the northern island group that increases the prevention, detection, and effective management of non-communicable diseases in Tonga. The Project is currently in the initial stages with designs planned for 3 sites around the Prince Ngu Hospital.

GPA 6: Building quality and easy access to government services, public enterprises focusing on increased access to high-speed broadband technology and more affordable energy,

communication, drinking water and clean environment for Tonga to support inclusive growth.

Further details of the:

a). Public Sector Reform Program[28]

- Further details of the **Policy Reforms** in Section 4 above are outlining below**:**

i). Pillar 1: Fiscal debt sustainability and public sector management:

❖ **Amendment of the Public Finance Management Act (PFM):**

The amendment PFM Act is on the pipeline to be tabled in Parliament.This was followed with the formulation of the PFM Reform and Rolling Plan Roadmap 2024 - 2029. There are key specific objectives outlines in the PFM Reform and Actions Matrix which are listed below:

a). Aggregate Fiscal discipline refers to:

- maintaining a sustainable balance between revenues, expenditures and the level of public debts.
- respecting the expenditures ceilings at all levels, and by all actors of the Government administration.

b). Efficient allocating and spending of the public resources in such a way that attainment of the government objectives is maximised.

Preconditions for optimising allocative efficiency.

clearly defined national objectives and priorities (TSDF, Corporate Plans
Existence of effective sector programmes (Sector Plans, Outer Island Plans)
Capacity to plan resources
Information on results and outcome (M&E)

c). Efficient Operationalization: ability to make efficient and effective use of resources in the implementation of the strategic priorities and the key elements are:

Use of liquidity (debt, cash management)
Resources to service delivery units
Reduce leakages

❖ On-going implementation of the **Electronic Sales Register System** to improve tax collection. ***Phase 1*** completed which was focused on shops that didn't have the machine and ***Phase 2*** is in progress trying to connect those that already in-placed the machine but yet to connect to the RMS monitoring;

❖ **Public Service Fraud Policy and the Public Service (Disciplinary Procedure) Act:**

Cabinet approved the draft Policy and Public Service (Disciplinary Procedures Regulations) Act in August 2023 with a change of name for the Act likely to be called the "Tonga Public Service Fraud Policy";

The draft is scheduled to conduct a consultation process with stakeholders and submit the final draft by June 2024;

The NZ Ministry of Foreign Affairs and Trade (MFAT) has offered to provide TA for the review of the Public Service Act.

PSC is continued collaborating with the Ministry of Finance and National Planning Department-Prime Minister's Office to review the line ministry's organizational structure.

ii). Pillar 2: Enhancing Resilience to Climate Change and Disasters:

❖ **National Disaster Risk Management (NDRM) Act 2021** was effectively enacted last year. The main objectives of the new Act are to create a comprehensive legal,

[28] Anti-Corruption Bill has now effectively enacted Act is a key priority of the GPA 6
Sources:JPRM Nov, 2023

institutional and regulatory structure for three critical aspects such as i). Reducing Disasters Risks, ii). Disaster Response and iii). Disaster Recovery

DRM regulation is currently undergoing consultations with all stakeholders and funded by NZ MFAT.

It is anticipated that

- Draft of the **Multi-Hazard Early Warning System (MHEWS) Policy** is a new policy that aligned with the DRM Policy

The policy will facilitate the interconnected programming of the following four elements of systematic people-centered early warning systems:

i). disaster risk knowledge
ii). detection, monitoring analysis and forecasting of the hazards and possible consequences.
iii). warning dissemination and communication
iv). preparedness and response capabilities

WB is providing TA for this reform.

- **National Emergency Fund (NEF):** Ministry of Finance completed development of the guideline for the NEF which provides operational for utilization of the NEF including strengthening the application, screening and reporting.
- **Adaptive Social Protection (ADP) Framework** The Ministry of Internal Affairs (MIA) led the formulation of the framework and it will incorporate an annex with the Roadmap for the Establishment of the National Social Registry targeting to collate data and update the needs of the vulnerability group especially in times of disaster.
- **Tonga Oceans Policy:** MEIDECC is leading the formulation of the draft policy and the accompanying Ocean Management Bill to encompass aspects such as seafood, marine life science, marine plastic, circular economy, offshore renewable energy, tourism and maritime support.

Preparation of both the draft Policy and the draft Bill are well advanced and consultations have been widely conducted.

The Bill is currently with the Attorney General's Office (AGO) to review prior submitted to Cabinet for approval.

iii).Pillar 3: Enabling environment for private sector:

- **Trade Facilitation:** Confirmed two exporters to pilot the **Trusted Trader Program or Authorized Economic Operator (AEO) program** are Palu Aviation and Nishi Trading will commence when Cabinet approves the program.
- **Competition and Consumer Protection:**

Building on the recently approved competition and consumer protection policy, MTED is now working on reviewing and revising the Consumer Protection Bill.

This proposed new Bill will also touch on the online business aspect and will introduce standard developments such as receipts, fine, and financial regulations. ADB Private Sector Development Initiative (PSDI) is providing the TA assistance.

- **Energy Sector:**

The priority now with the **Energy Act** is to formulate the General Energy Regulation. The first consultation was conducted in the Planner's Forum 2024 in coordination with the National Planning Department under the Prime Minister's Office and anticipate continuing the dialogue with the stakeholders to complete the first draft before the end of the current FY.

An on-going discussion on the appointment of the Energy Commission members led by the Energy Department of MEIDECC.

b). E-government project[29]

- The digital government reforms are guided by the **E-government National Strategy** in the government administration for efficient and effective sharing of data and information.
    - The Digital Government Department (DGD) under the Prime Minister's Office continued working closely with the Ministry of Justice and National ID under Palace Office to set a platform sharing system to enable the users of this information to easily access the Vital Statistics, National IDs. The aim of this initiative is to provide effective and efficient government services to the public and reduce government cost.
    - The DGD continued to roll out the same initiative to the rest of the government services through the Data Centre.
- The Cyber Emergency Response Team (CERT) of MEIDECC is in progress with monitoring the Computer Crimes such as specified offences including illegal access, interfering with data, interfering with computer systems, illegal interception of data and illegal devices.
- Mobilizing ICT into other groups such as Tonga Women in ICT (TWICT). This project helps to empower and encourage Women in the workforce that would like to pursue a career path in ICT. The project also conducts a Digital Literacy Training which also expands to male interest.
- Digicel Tonga joined forces with the Ministry of Education to further amplify the impact of the Hama eLearning Platform (HeLP). Digicel Tonga allows internet services through the zero-rating policy to access the HeLP.
- Tonga Cable Ltd marked its 10th year anniversary celebration with a Grant signing of US$32m for the second **Fiber-optic International Cable for Tonga**, that will be installed through Vava'u. timeline for the work – Completion expected at the end of 3rd quarter 2025. progress thus far – signed December 2023. Certain pre-conditions to be met by all parties by 31 March 2024. Work already under way between the parties mainly to do with preparatory works with getting orders in place, consultants/staffing in place, permits applied for and funding ready for disbursement.

c). Reliable, safe and affordable water supply

- The installation of the Water Supply for damage and relocation of villages after the HTHH (Ha'apai and 'Eua) are in progress which are co-financing by the Government of Japan, MORDI and the Government of Tonga. The Eua Water Supply System improvement has been completed and was funded by the Sione's Foundation.
- Reference to GPA 2, an ongoing distribution of the water tanks led by the Climate Change Department under MEIDECC which were able to distribute more than 7,000 water tanks as of today.

d). Affordable Renewable Energy

- **Energy Sector Reform:** Reference to the policy reforms reflected in the bullet point (a) above are the progresses as of today such as formulation of the Energy Regulation, establishment of the Monitoring & Evaluation Tool to monitor the progress of the TERMP+ targets, establishing of the new Energy Commission and the Advisory Committee.
- **Energy Targets:** Tonga reached 27 percent **Renewable Energy** of their total electricity generation as of December 2023 which shows an impact of commencing the Energy Projects across Tonga, including the Niuas as various projects were delayed until the lifting of the COVID-19 restrictions. The **line losses** maintained below 8 percent. The

[29] This focus area of the Budget Strategy is the same rationale as the approved GPA 6 sub-GPA 6.2 "Digital Transformation System"

Energy Department is closely collaborating with TPL to implement the targets that have been placed in the TERM+;

- **Energy Development Projects:**
  - **Two major Solar Mini-Grid Projects:**[30]
    - **Outer Islands Renewable Energy (OIREP) f**unded by ADB, DFAT and Government of Tonga (US$6.8m): Completed the installing of the Solar Photovoltaic (PV) power plants for 4 major islands in Haapai (‘Uiha, Ha’afeva, Nomuka, Ha’ano) and the Solar Farm in Niuatopu which was commissioning last year.
    - **Tonga Renewable Energy Project (TREP)** funded by GCF, DFAT, ADB and the Government of Tonga: 3 components implementing under this project which were i). a large BESS capacity on Tongatapu to ensure that the intermittent electricity generated from solar photovoltaic and wind power; ii). electricity generation from the most feasible renewable resources which covered 4 outer islands in Haapai (Kotu, Tungua, Oua, Mounga’one), 4 Islands in Vava'u (Otea, Hunga, Falevai, Ofu) and Niuafo’ou by fully installing of household solar power to all households. Kotu and O'ua are completed and to be commissioned in April and the other two islands are currently being implemented and also Niuafo’ou and the Vavau islands will be mobilized April 2024.
  - **Ice Cooler Solar Projects** (funded by JICA): 11 islands in Vava’u and 9 islands in Ha’apai including Mango. This project is very helpful to the people in the island to preserve foods for consumption and also for income generation operated by women groups and youth groups in the community.
  - **Water Solar Pump Projects** (funded by JICA, International Solar Alliance - ISA, Canda)**:** This project covered the rural areas in Tongatapu, Vavau and Ha'apai.
  - Implementation of the **Solar Street Lights** (funded by China) across Eua, Haapai, Vavau and the Niuas
  - **China Wind Farm:** The land has been secured, EIA and designs are completed and await the contractor to arrive so the project can start installation. This is part of the working towards the promoting cleaner environment and energy efficiency.
  - **Nukualofa Network Upgrading Project (NNUP)** funded by ADB ($9.3m NZD) and MFAT ($11m NZD): On-going upgrade and modernizes the electricity network in the Nuku'alofa Area, in 5 phases which encompass the 5 areas of Nuku'alofa. NNUP will help to reduce network losses, increase access to electricity, provide safe and reliable electricity supply to approximately 8,472 households and businesses in the greater Nuku'alofa area, and improve TPL's operating and maintenance capability.
- Government continues to subsidize the **“Lifeline Tariff Discount Scheme”** in the 1st quarter of the FY 2024.
- **New Generator** 2MWH donated by the Australian Government to Tonga Power Ltd to ensure the reliability of power supply to the people of Tongatapu by enhancing Tonga Power’s capacity to meet the electricity demand.
- An **International Energy Day** was also commemorated in Jan this year in Tonga by the Energy Department-MEIDECC to increase public awareness and to promote a cleaner environment;

[30] Sources: Energy Department

- **Energy Security:** The Government is in progress with the Energy security project to secure the amount of oil to avoid shortages in the future based on the increased demand of the people.
    - One purpose of the expansion of the Queen Salote Wharf is to cater for the **big ship-Medium Range Tank (MRT)** to transport the oil directly from the first destination to Tongatapu.
    - On-going negotiation with the 2 Local Oil Tankers Companies (Total and Pacific Energy) to collaborate in **increasing the oil tankers** at their storage to cater for the high demand of the people.

Public services:

- Tonga Post is currently engaged in the *Tonga National Home and Street Addressing* initiative, which commenced in July 2023 and is expected to be completed in July 2025. The initiative is supported by $6.7m in internal funding from Tonga Post. This project is dedicated to the establishment of a standardized system for street addresses.

e). Asset Insurance Scheme

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

Renewable Energy Projects

TREP

The purpose of TREP is aligned to Tonga's goals on dependency on imported fossil fuel for power generation reduced and to support access to clean, resilient, and affordable energy for the population in Tonga at a lower cost. As the Project ending in November 2024, two battery energy storage systems have been installed in Tongatapu -Popua and Matatoa, including an on-grid connection with solar installation for Vava'u and 'Eua already in place.

OIREP

The OIREP Project aims to reduce Tonga's dependence on fossil fuel and the provision of on and off grid generation solar power at a reduced cost. The Project was completed in December 2023 for the remaining works of the outer-island mini-grid distribution for Nomuka, Ha'afeva, 'Uiha, and Ha'ano, and Niuatoputapu.

Nuku'alofa Network Upgrade Project (NNUP)

The NNUP Project will support in aligning Tonga's Renewable Energy targets, TERM Plus, JNAP targets and the Tonga Energy Efficiency Masterplan, amongst others. It is expected to reduce technical power losses and climate vulnerability of electricity in Nuku'alofa, and this is through the rehabilitating of the 16.5 km of 11-kilovolt medium voltage transmission network and upgrading 50km of 0.4kV low voltage distribution networks. Works have been completed for Tu'atakilangi and Kupolu areas.

Grid Strengthening Project

The project is aligned with Tonga's Renewable Energy Roadmap for renewable energy increase for Tonga's dependence on fossil fuel to be reduced. This would entail potential reductions in cost for tariff in the future. The project will ensure supply of clean and reliable electricity is transmitted through the construction of a new 12-km (33kV) transmission line from Fualu to Popua Station. The transmission will ensure renewable energy is evacuated effectively from an Independent Power Producer 20 MW solar PV that is currently negotiated by Tonga Power Limited.

IURSP (TWB, WAL)

The Project comprises a component that supports the Government's service delivery through improvement of water service in Nuku'alofa and enhancing public and environmental health. Both components are implemented by Tonga Water Board (TWB) and Waste Authority Limited (WAL) respectively. To date, 2 vehicles have been purchased for TWB, WAL and MOI to provide support in their implementation. Technical equipment such as 3 waste collection vehicles and landfill operations equipment are mobilized while the Construction of Cell 3 for Tapuhia Landfill is currently underway with site clearing, expecting completion by the end of 2024. Tonga Water Board completed mobilizing water service field test units for a better water monitoring system and data collection improvement for TWB. It is currently reviewing tariff and considers potential rehabilitation of Nuku'alofa water distribution network.

Communication Cable

Hawaiki

The Hawaiki Project supports the Government's policy on providing affordable services. It aims to increase the redundancy of the Tonga's international undersea cable connectivity; provide a basis for construction of a second Tonga domestic undersea cable, or equivalent, to realize greater telecommunications system redundancy in the future; and provide options to offer more effective and efficient network traffic and operations management to customers. The Government and the implementing contractor signed an agreement early in 2024 to implement the project.

Tonga Digital Support

The Tonga Digital Government Project aims to improve Tonga's capacity for digital public service delivery which is aligned to the Digital Government Strategic Framework (2019-2024). The project is currently in progress to finalize legislation including Amendments to the Birth, Death, Marriages Registration Act, Amendments to the National ID Card Act, the Cybersecurity Bill that has been deferred by the Law Committee before submission to Cabinet, Cybercrime Bill, Data Protection and Privacy Bill.

Wind Power

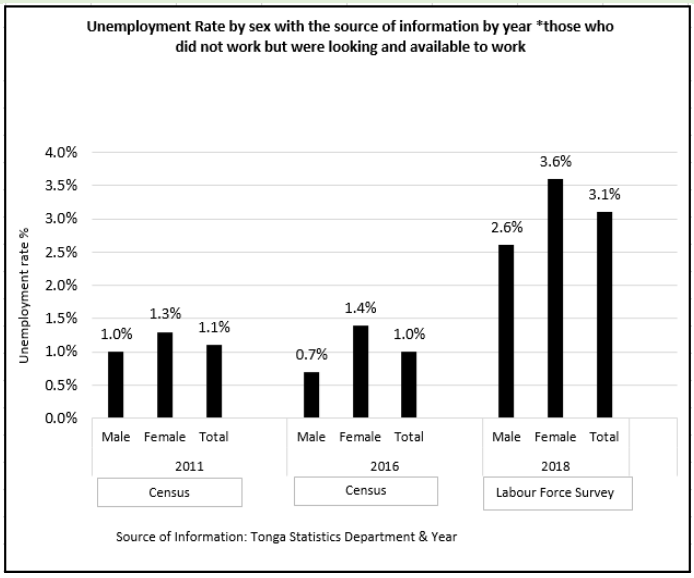
The Project was formulated to support Tonga's Renewable Energy Goals and objectives under the TERM Plus to help decrease Tonga's reliance on fossil fuels through the provision of renewable energy sources. To date, the progress of the Project has secured the government's contribution for temporary housing of workers and securing land at Tatakamotonga for the Project site. The Project is now moving into assembly and installation of the wind turbines.

10.3 Thematic 3: Progressive Economic Growth

GPA 7: Maximizing trade opportunities focusing on drivers of economic growth through strengthening of business enabling environment[31]

TSDF II High Level Key Performance Indicator

A-Figure 26: Unemployment Rate by sex with the source of information by year



Source: TSD

By 2025 (TSDF target) the unemployment rate is expected to reduce to 2 percent. In 2018, Tonga recorded the highest overall rate stood at 3.1 percent in 2018 which the women's unemployment rate at 3.6 percent (469 female) is 1 percent point higher than men's unemployment rate of 2.6 percent (436). This results from various issues including high interest rates, global recession etc.

Through this GPA, the government continues to work towards sustaining the economic growth of the country to support a more progressive life for all Tongan. Outlined below are the government interventions that made significant progress after the 1st and a half year of HTHH recovery:

a). Fisheries Sector

Outlined below are the programs that the Ministry of Fisheries and the stakeholders achieved in the 1st six months of FY,2024:

- **Tonga National Fisheries Census (TNFC)**: 1st consultation with the key stakeholders that are directly involved in the TNFC was conducted in January this year. On-going discussions of the questionnaire prior to the Census.
- **Pathway to Sustainable Oceans Project (PSOP)** progresses well achieving most of the priorities from the last mission:
    - The progress as of today is the i). procuring of the ***32 SMA boats and 3 compliance boats*** – (iii) the design and supervision contract for infrastructure works has been awarded and underway; (iv) design and construction contract for the Sopu ***hatchery and mariculture*** center has been tendered; (v) the ***draft final report*** for the ***Fisheries Infrastructure Master Plan Study*** has been received; and (vi) there is a continued roll out of implementation activities on the ground including ***SMA monitoring*** and extension activities, the vessel registration program, creel data survey analysis and procurement of goods for marble pearl farmers and ***3 compliance patrol boats*** will deliver by June,2024, extension to the office and marble pearl facility Vava'u.

    o Infrastructure activities: 3 boat sheds, extension to the office and marble pearl facility Vava'u:
        - The D&S firm's contract, ITS was signed in October 2023

[31] GPA 7 revisions was approved by Cabinet in 2023

- Inception report and first draft design by end of November
- Need to construct the boat sheds by Feb-March 2024

- Long line fishing using **Fish Aggregation Devices (FAD)**: The Cabinet approved the revision of the Deepwater Fisheries Management Plan 2024 - 2026 and the implementation effectively started.
    - 39 FADs were utilized. (10 TBU, 8 VV, 2 NTT, 3 NF, 3 HP and 14 'Eua)
    - 22 more FADs to be utilized. (5 TBU, 7 'Eua, 5 HP and 5 VV)
- The Fishing Sector also received **funds from the PPP** allocation under the Ministry of Finance. These funds aimed to support the Vava'u Fish Market by purchasing an ice plant, Tu'imatamoana deep freezer, Renovating of Tu'imatamoana Export Facility, Fish Biats and buying new coolers and equipment for Tuimatamoana.. It is approximately $268k approved to improve the Fisheries Sector.

b). Agriculture Sector

Outlined below are the programs that the Ministry of Agriculture and the stakeholders achieved in the 1st six months of FY,2024:

- The growers and exporters received **financial assistance from the PPP** allocations that operate under the Ministry of Finance. This assistance provided an improvement in the Agriculture Sector.
- Tonga Circular Economy System:

- Tonga National **Agricultural Census (TNAC)**: 1st consultation with the key stakeholders that are directly involved in the TNAC was conducted in January this year. The aims of the TNAC delve into various facets, including the size of agricultural holdings, land tenure, land use patterns, harvested areas, irrigation practices, livestock statistics, labour dynamics and other crucial agricultural inputs.

c). Tourism Sector:

Outlined below are the programs that the Ministry of Tourism achieved in the 1st six months of FY, 2024:

- The Ministry of Tourism prioritized the Incentive for **Inspection and Tonga mark rating** in the last six months to ensure the tourist accommodations in Tonga meet the regional and international standard. There were several trainings conducted for the hotels, motels and resorts operators to prepare for the PIFS meeting in August 2024.
- The **"Haamo 2 Ke Langa 'A Tonga"** is a new building complex to be constructed on the royal estate "Polata'ane". The purpose of this new complex is for accommodation of VVIPs. The structure of the complex includes a conference centre, reception, Rrestaurant and 58 rooms, swimming pool and bar. The building is expected to be completed by June 2024.
- Tourist Operators for **whale watching** had improved compliances with the regulation, especially updating their licenses (26 operators in Vava'u, 4 in Tongatapu, 2 in 'Eua, and 9 in Ha'apai);
- Effective implementation of the **Beautification Program** by the Ministry through upgrading of Nuku'alofa Waterfront Areas from Sopu to Patangata, the Historical/ Tourist Sites, Public Facilities including Captain Cook Landing, Houma Blow holes, Fale Tonga at the waterfronts and Popua Park Fountain, 2 Planting of the Mavaetangi at the International Airport Roadside and Vuna Wharf, participate in the 1 million tree planting target led by MEIDECC and also promoting the 'No Pelesitiki' Campaign once every Saturday.
- Increased tourism activities from all relevant **Niche Market:** 3 New Cruise Ship Tour Operator joins the Steering Committee and secures the first cruise for 2024 (Uoleva Island, Haapai become the destination for 2 Cruise Ships. an increase from previous year, while Captain Cook Cruises Family Trip to Tonga sold packages for Tonga Island Excursions for 2024.

- The Tourism Sector also received **funds from the PPP** allocation under the Ministry of Finance. This fund was helping to improve the Handicrafts Informal Businesses. approximately TOP1.1 m offered to this sector.
- Continue to increase the number of **Cruise Ships** arriving in our ocean which helps the economy. A total of 20 Cruise Ships arrived from July to December to Tongatapu, including Vava'u and Ha'apai. The Ministry of Tourism continue to increase promotion of Cruise Ships through Marketing, Trainings and Meetings such as Cruise Ship Forum in Papeete, Tahiti, Tour Guide Training Tongatapu Pool 2 and 7 Steering Committee Meetings held from July - Dec 2023.
- Saudi Arabia donated financial assistance to build a **new National Museum Facility** in Nuku'alofa which is expected to be completed in the next FY 2025. The project is coordinated by the Tonga National University, Ministry of Tourism and the Ministry of Infrastructure.

d). Business & Trade Sector:

- Empowering and uplifting the profile of the businesses through the MOU signed between MORC and MTED to support the **Heilala Tax Services Program.**
- The Business Sector also received **funds from the PPP** funds which operated in the Ministry of Finance. Some businesses received funds for equipment (media, heavy machinery, Software and kava manufacturing). It is approximately TOP$459k approved by Nov 2023 to six businesses in Tongatapu.
- Tonga has joined the c**ompetition, consumer protection, and economic regulators** from across the Pacific to share intelligence, investigative techniques, and authority best practice, in a newly formed initiative to be called the Pacific Island Network of Competition Consumer and Economic Regulators or PINCCER. MTED has developed a **Consumer and Competition Policy** and is now working on the review of the current Consumer Protection Act. Tonga has also prioritized the development of the Standardisation Roadmap for Tonga this financial year.
- The Ministry continues to host the **Annual Trade Fair event,** which was one of the successful events that empowered the private sectors through showcases their business productions, conducted competitions and marketing their products to the public and overseas.
- The *Tofoa market upgrade* is an internal TMCL project that cost TOP$150,000. With the goal of serving as the primary Talamahu market on a daily basis, this 4-year plan project began in October 2023 and is expected to conclude in 2027.
- **Buy Tonga Made Support Program:** Ministry of Trade & Economic Development continued in facilitating this program for almost 5yrs and 75 businesses had been receiving this support since the beginning of the program. This support is not only targeted to empower local private sectors but to also reduce the import of goods and to help the economy.

Tonga Fish Pathways Project-IDA

The Project is ongoing with the focus on improving the management of selected fisheries and aquaculture in Tonga's territory. To date, 32 Special Management Area (SMA) boats were scheduled for delivery in February and April 2024 while 3 compliance patrol boats are scheduled for June 2024. 12 additional new observers were received during the FY to ensure result frameworks are achieved under the SMA Program.

Economic Development under MAFF & Fisheries

This Project comprises various development programs that aim to support Economic development initiatives for Tonga under the Ministry of Agriculture and the Ministry of Fisheries. Completed activities for Agriculture involve sustainable agri-food systems equipment procured for the Livestock and Extension Division. Moreover, economic development initiatives are supported by the Ministry of Fisheries in alignment to the Tonga Fisheries Sector Plan. One of the ongoing projects include the launching of 2 new systems for vessel registrations and Port State measures known as e-PSM. This allows better monitoring and collection of data for the Ministry.

Tourism Project & Accommodation

This Project is aligned to strengthening Tonga's Private sector through the activities under the Public Private Partnership (PPP) programme. This initiative is in alignment with the HTHH Recovery initiatives for Tourism. The purpose of the Project is to engage with Tourism operators and the communities to offer sustainable, community inclusive, authentic island experience for travellers through the construction of 200 additional rooms as single studio prefab island Fale (rooms) (able to withstand Category 5 Cyclone). The Project is in its development stages, with 60 Fale being cleared to proceed with construction. Seventeen (17) Fale for Tourism housing in Ha'atafu, 18 for 'Atataa, 15 for Kanokupolu, 3 for Fua'amotu, and 7 at 'Eua.

GGP & NPGA project

Grant Assistance for Grass-root Human Security Project (GGP) assists small grass-roots level community projects addressing local issues, such as Sanitation and health care, public welfare and Education, improving access to clean and safe drinking water. They directly align with the Primary Objectives of the Tonga Strategic Development Framework, the Tonga Education Policy Framework, and the Food Security Policy. Ongoing projects include the upgrading of Popua Government Middle School, Tokomololo water supply system and Navutoka water supply system.

The Non-Project Grant Aid (NPGA) programs are ongoing to support economic and social development efforts, including poverty reduction. Agriculture processing and research & development equipment for the Ministry of Agriculture, Food and Forests has completed its exchange note in FY 2023. Also, provision of equipment for practical disaster management was received in October 2023.

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

The following outlines the key deliverables under this GPA. Significant achievements of the sector are highlighted below:

a). Updates of the National Infrastructure Investment Plan (NIIP 3) 2030

i). Roads:

- The *Tonga Climate Resilience Transport Project (TCRTP)* is a multi-m dollar initiative funded by the World Bank and the Government of Tonga. The project aims to enhance the country's resilience to climate change, particularly in the transport sector, which is critical for the nation's economy and social development. The project commenced in 2019 and is expected to conclude in 2024; Reconstruction of *public roads in Vava'u and Tongatapu* (Liku road, Fua'amotu to 'Utulau, Fo'ui to Makapaeo) is an ongoing component of TCTRP;
- Fanga'uta Lagoon Bridge project update. A 720-meter (or 2.82 km when approach roadways are factored in) bridge connects Vaini and Nuku'alofa across Fanga'uta lagoon. Each of the project's three scopes has a unique price tag: scope 1 is valued at $122m, scope is valued at $110m, and scope 3 is valued at $102m. The initial scope of their task is not yet been determined. This ADB-funded project is currently undergoing the bid evaluation process

ii). Maritime:

- Outer Islands Wharves and Jetties:
  - The *Niuafo'ou wharf upgrade* commenced in November 2023 and is a component of the World Bank-funded TCRTP program. The initiatives encompassed in the projects list are as follows: void filling on the eastern side of the wharf, bollard replacement with reinforced concrete bollards, pavement repair on the causeway and wharf, supply and installation of two new light poles on the wharf and causeways, truck tire fender supply and installation, and maritime aids to navigation at the harbor (buoys equipped with lights, batteries, solar panels, and reinforced concrete anchors). The estimated cost of the project is TOP$2.1m.
    - Projects in design stage:
  - As part of the TCRTP program, the reconstruction and relocation of *Nafanua Harbour* is currently in the early phases of design and agreement. The estimated cost of this project is $26m. Negotiations are underway regarding the *'Ohonua bridge project*, with an approximate budget of $16m.
  - Jetties for outer islands. This project is overseen by the Ports Authority Tonga (PAT), which is now designing new jetties for the outer islands of Nomuka, Ha'ano, 'Uiha, Faleloa, and Ovaka. Total estimated costs of these projects are around US$94m and to be funded by ADB.
    - Upgrade to the Port:
  - Ports Authority self-funded project:
    - The *Queen Salote Wharf main entrance guard house* relocation project, which was funded by the PAT, was concluded in July 2023. The objective of the project was to align with the ongoing ADB project concerning the improvement of the QSW port, as well as to enhance the security and efficacy of cargo operations to meet global benchmarks. This project costs $40,000.
    - The *Port Authority Tonga's TTIVDW* movable ramp project was finalized in July 2023. This undertaking enabled adaptable ramp operation and catered to every variety of large vessel in the kingdom, from the Onemato to the Otuanga'ofa. This project's entire budget of $200,000 was financed exclusively by the Port Authority of Tonga. In September 2023, the Port Authority completed a self-funded IT infrastructure enhancement project, costed $561,648 in total. The project started to address vulnerabilities and risks identified during a review of the Port Authority's IT infrastructure. Server Works NZ was appointed as the contractor to oversee the project's execution.
  - The *Nuku'alofa Ports Upgrade* initiative is an ADB-funded project with $55m, in collaboration with the Government of Australia contributing $20m and the Government of Tonga providing $8.5m. The total estimated costs of the project is US$83.5m. The project aims to modernize and expand the existing Queen Salote Wharf to accommodate the increasing number of larger cargo vessels visiting Nuku'alofa ports. McConnell Dowell NZ is the contractor responsible for the project, which is scheduled to be completed between April and August 2025.
- An US$10m tugboat acquisition, funded by JICA, is currently underway with a projected completion date of July 2024. The project aims to replace two existing tug vessels, one of which was donated by Japan in 1994 and is now considered outdated at 27 years. The

additional tugboat is necessary to accommodate larger tonnage cargo vessels. Negotiations are ongoing with ship manufacturers to secure tugboat.

iii). Aviation:

- Successful completion of runway, apron, and taxiway resurfacing at Ha'apai Airport. An US$9m project that Tonga Airport Ltd overseen, funded by the World Bank.
- 'Eua airport runways require regular maintenance and resurfacing to ensure the safety and efficiency of aircraft operations. This includes repairing any damage, updating surface materials, and ensuring compliance with regulatory standards. This work is expected to begin in mid-2024.
- The purchase of a twin otter plane by the Tongan government for US$6.25m would be a significant investment in enhancing the country's aviation sector. The twin otter is a versatile aircraft known for its ability to operate in challenging environments, making it well-suited for serving remote and island communities of Tonga.

iv). Improvement to other public infrastructure

- The Energy Road Map PLUS (TERM Plus) 2021 - 2035 for energy supply and consumption, and power generation aimed at increased share of power generation for renewable energy; reduced oil consumption in the transport sector and improved policy and regulatory environment to support national energy objectives. As of the time of reporting, the following results have been achieved:
    - achievement of universal access to electricity with 99 percent electrification rate - achieved during September 2023 when the OIREP Project commissioned at Niua Islands.
    - transmission and distribution losses is 6.66 percent in 2023.
    - contribution from renewable energy generation reached 27.1 percent.
    - participation of private sector for renewable energy generation through investment by Sunegise Sola IPP: 6 MW solar PV connected to Tongatapu Grid, completed and inaugurated in December 2022; Zhuhai Singyes Green Building Technology IPP, 2 MW solar PV connected to the Tongatapu Grid, commissioned since October 2017. Negotiation is underway with potential IPP for 20 MW/24 MWp solar PV and 20 MW/50 MWh BESS.
- The MLNR is leading the Integrated Urban Resilient Sector Project, launched in 2019. The ongoing initiative aims to enhance living conditions in Nuku'alofa, improve resilience to natural disasters and climate change impacts. With a total budget of US$$21.3m, the project, funded by the Asian Development Bank's Asian Development Fund (ADB ADF) and the Government of Tonga, will conclude in March 2026. The ADB's ADF contributes 85.7 percent (US$18.3m), while the Tongan government provides the remaining 14.3 percent (US$3.0m).
- The *NNUP 5*, encompassing the areas of Puke, Hofoa, Sia'atoutai, and Sopu, is currently in progress and is anticipated to be completed by the end of 2024. The NZ$9.2m initiative, which is funded by ADB under PREIF, is implemented by the Tonga Power Limited.

b). HTHH Volcanic Eruption and Tsunami Recovery Project Progress

- Group 1 of NIIP 3 has five HTHH-related initiatives. The progress of these initiatives is detailed in each GPA that they are aligned to. *Refer to GPA 1 and 6 for details.*

c). Non-Project Grant Aid (NPGA)

- The *Waste Segregation & Recycling & Scrap Vehicle Recycling Service Project* is funded by a Non-Project Grant Aid (J-NPGA) from the Government of Japan. It is administered by the WAL and implemented by MLNR. Implementing refuse

recycling in Tonga and the outer islands, promoting recycling initiatives, storing recycling machines, processing recyclable materials, and educating the public are the objectives of this ongoing project. Commencing in 2023, this NPGA has incurred US$4m in costs. It is currently ongoing.

Tonga Climate Resilience Transport Sector (TCRTP)

The project aims to improve climate resilience of Tonga's Transport sector by rehabilitating roads. The TCRTP I have completed about 65percent for Tongatapu Liku Road (Lot 1) spanning at 4.6 km, 68percent is completed for Liku Road (Lot 3) at 4.8 km, 38percent is completed for Loto Road (Lot 3), and 5percent completion for Loto Road (Lot 2) at 3.6 km. Other components for the outer island include the Eua road that is almost completed and scheduled for June 2024, spanning at 6.3km, as well as the Vava'u Road with 8.6km with works currently ongoing. In addition, the second phase of TCRTP will rehabilitate the roads from Hoi to Kolonga at 6.3km. The current work is now 5percent progress and expected to complete works by January 2025.

Parliament New Building

The New Parliament Building is to provide a safe, functional and climate resilient environment, to enable Tonga's Parliament and the democratic process to be conducted effectively. To date, the project location has been confirmed and is now moving to design phase of the Talangaholo site.

Nukualofa Port Upgrade Project

The project aims to rehabilitate and upgrade the queen Salote Wharf Nuku'alofa, including international cargo wharves and infrastructure. The Wharf construction is now up to 40 percent completion, with a completed milestone on the handing over of the Main Mooring Dolphin #3 in early 2024. The Project has rehabilitated 2 of the cargo wharves which are now functional for domestic ships. The new concrete seawall has been completed to increase climate change resilience from the waves to the wharf, also a container yard has been reorganized and upgraded.

Fangauta Lagoon Bridge

The Fanga'uta Lagoon Bridge Project is designed as amongst the government's priorities under the NIIP and aims to contribute to a more reliable, safe, and affordable transport service. The Project is currently in its development stages with designs being completed and the government is now looking at options of proceeding further for the scope.

Jetties and Road Maintenance

The Outer-Island Jetties was developed in line to the NIIP priorities and towards achieving a safer and more affordable domestic and international sea transportation, and maritime sector, The project is looks at enhancing transport connectivity for Tonga to the outer-islands. The government then engaged a total of 11 outer-island Jetties - 6 for Vava'u and 5 for Ha'apai. The project is now moving forward in the current FY with the jetty construction for Nomuka and Faleloa.

Upgrading of Royal Tombs

This project is the upgrading of a cultural heritage site in central Nuku'alofa that includes a new parking area, bus stops, newly furnished gate and entrance into the Royal Tombs. The construction is currently underway with clearing the area for the Parking.

New Fua'amotu International Airport

The Project is still progressing with ongoing design works to the increased scope, and the need to reconfirm the relocation of the VVIP building to accommodate the expansion of the departure lounge. The actual work is expected to commence in 2025.

THS Sports Complex

The THS Sports complex was developed to provide a safe, functional and climate resilient environment and to facilitate sports preparation and training for schools and Tongan youth. To date, the Project is about 80percent complete which consists of constructing an indoor stadium, an international standard rugby field, a netball and tennis court and is expected to be completed by August 2024.

National Museum of Tonga

The National Museum Design is currently ongoing and is expected for construction later in the upcoming FY 2025. The Project will help identify, preserve, and promote the cultural and natural heritage and artifacts for Tonga.

'Eua Wharf bridge reconstruction project

The construction of 'Eua Bridge is part of the government's post HTHH volcanic. To date, the procurement of a single source contractor is currently underway, and the prefabricated components of the bridge will be shipped in-country later in 2024.

TFES Office Headquarters

The Project is currently in its proposal stage given the need to support Tonga Fire Service in its operations. The works are expected to start in FY 2025.

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

- **Health:**
  - The Charge d'Affaires ad interim of the Chinese Embassy to the Kingdom of Tonga, Mr. Ruan Dewen, and the Minister of Health of Tonga, Hon. Dr. Siale 'Akau'ola, signed a protocol between the Government of the People's Republic of China and the Government of the Kingdom of Tonga concerning the dispatching of a Chinese medical team to work in Tonga
  - Tonga Minister of Health and New Zealand's Minister held a bilateral meeting at the New Zealand chancery office, emphasising both countries' dedication to strengthening health outcomes for their populations.
  - *Infrastructure:*
    - NZ contributed NZ$2.4m to the construction of this central warehouse, aiming to enhance Tonga's healthcare infrastructure and improve access to essential medicines. The facility will store and distribute pharmaceuticals, medical equipment, and other healthcare items, emphasizing the strong relationship between the two countries' health systems
    - This project, known as the Tonga Integrated Aged Care Project, aims to enhance the provision of safe and high-quality integrated health care services for elderly individuals and their caregivers.
  - *Training:*
    - Two medical officers from Vaiola Hospital are undergoing an 11-week pathology workforce training program at the pathology laboratory in University Hospital Geelong, Australia, under the auspices of the Royal College of Pathologists of Australasia (RCPA).

- **Education:**
    -
    - The ‘Ahopanilolo Technical Institute in Tonga received a new classroom building funded by a US 72,000 grant from the Japanese government’s Grant Assistance for Grass Roots Human Security Project (GGP). The Ambassador of Japan to Tonga, Mr. Inagaki Hisao, handed over the new building during a commissioning ceremony. He expressed hope that the vocational knowledge and skills acquired by the students would benefit them not only in Tonga but globally. The Director of Catholic Schools, Mr. Soane Vahe, expressed gratitude for the assistance and highlighted the positive impact the new facility would have on the students. This project follows Japan’s previous support to the institute in 2012 when they assisted with the construction of a laundry building.
    - Popua Middle School has experienced a notable surge in enrolment, with numbers more than doubling in the last three years. The school is set to receive a new classroom, courtesy of a grant provided by Japan.
- **Disaster management:**
    - During the visit, a forum organized by the Australia High Commission in Tonga brought together development partners to discuss disaster and climate risk reduction efforts. To strengthen partnership in Disaster Risk Reduction (DRR) space, Australia has pledged AU$100.0m to support the Pacific region in addressing the climate crisis through the Pacific Resilience Facility, a community resilience financing mechanism led by the Pacific.
    - By engaging in this collaborative effort, the senior officers from Tonga NDRMO contributed to a broader regional initiative aimed at building capacity, sharing best practices, and fostering a more resilient future for the Pacific Island nations.
    - This ongoing partnership aims to enhance disaster response capabilities, foster interoperability among various agencies, and strengthen the resilience of communities in the face of natural calamities. The joint training exercises conducted as part of Longreach 2023 provide a platform for honing skills, sharing best practices, and building strong relationships between the participating organizations.
- **Economic Development:**
    - *International Trade:*
        - Nishi Trading, with MDF support, aims to address these challenges by exploring air freight options, utilizing Air New Zealand’s services. The trial includes testing new cardboard packaging designed to maximize space and reduce spoilage, potentially opening doors for more Pacific farmers to export their products and increase income. Air New Zealand expresses interest in expanding air freight services to better connect Pacific exporters with global markets.
    - *Digital economy:*
        - The Inclusive Digital Economy Scorecard (IDES) serves as a policy tool to assist governments, including Tonga, in prioritizing their digital transformation efforts. It identifies market constraints hindering the development of an inclusive digital economy and facilitates collaboration between public and private stakeholders to address these challenges. Tonga aims to leverage technology to diver inclusive development, particularly in areas such as e-learning, e-health services, energy solutions, and connectivity among dispersed communities.

    - *Community development projects:*
        - Mr. Ruan Dewen, Chargé d’Affaires ad interim of the Chinese Embassy, visited Neiafu and the outer island Ovaka of Vava’u to attend the handover ceremonies of community livelihood projects. These projects aimed to assist fishing boat engines, sewing machines, greenhouses, and aquaculture facilities. Hon. Deputy

Prime Minister Samiu Vaipulu, Lord Fakatulolo, Governor of Vava'u, and community leaders from Ovaka and other areas participated in the events.

- **Fisheries:**
  - Ruan Dewen, Charge d'Affaires ad interim of the Chinese Embassy, attended the Talafo'ou fishing boat handover ceremony in Tongatapu 10 Constituency. The event was also graced by Hon. Lanumata, Member of Parliament for Tongatapu 10 Constituency, Hon. Lauaki, Talafo'ou Estate Holder, and other officers. Hon. Lauaki expressed gratitude towards the Chinese embassy for their generous assistance. The Chinese Embassy was pleased to help the Tongan people improve their living standards and hoped that the fishing boat would promote sustainable development in the Talafo'ou community
- **Defence & security:**
  - AFP Assistant Commissioner Nigel Ryan's recent visit marked the AFP's first official engagement with Tonga since the COVID-19 pandemic. The meeting focused on reaffirming shared objectives under the Tonga-Australia Police Partnership (TAPP) and exchanging ideas on policing best practices. During the visit, the AFP supplied crucial equipment for Tonga Police's radio project and inaugurated the new Transnational Crime Unit. Additionally, the AFP contributed digital interviewing machines to Tonga Police's Domestic Violence Unit and presented musical instruments and sound equipment under the Pacific Immediate Initiatives program. Assistant Commissioner Ryan emphasized the strong collaboration between Australia and Tonga in enhancing law enforcement capabilities and ensuring Pacific safety and security.
- **Agriculture:**
  - Mr. Ruan Dewen, Chargé d'Affaires ad interim of the Chinese Embassy, met with coconut experts from the China-Aid Agro-Tech Coop. Project in Tonga. The experts, in collaboration with the Ministry of Agriculture, Food and Forests, will provide training programs to enhance coconut cultivation in Tonga, aiming to boost coconut production and improve the livelihoods of Tongan farmers
- **Public utilities:**
  - *Water supply:*
    - Taryn Colless from Unitywater highlighted the profound experience of working with the Tongan Water Board, emphasizing the importance of global partnerships in enhancing resilience and fostering cross-cultural exchanges for addressing challenges together
    - The Government of Japan, through its GGP, has been providing support to Tonga for various development initiatives. The GGP program aims to address the needs of local communities and contribute to the overall socio-economic development of the country. One of the recent projects supported by the GGP program is the upgrading of the water supply system in the village of Houma which includes the replace of 1.8km of main water pipes has also ensured that there are no leaks or breaks in the distribution system, further ensuring a consistent water supply.
    - Tokomololo and Navutoka have been facing challenges with their existing water supply systems, which have been impacting their residents' quality of life and overall public health. With the new grant funding from the Government of Japan, both villages will address these issues and improve their infrastructure.
  - *Electricity generation & distribution:*
    - Her Excellency Rachel Moore commissioned a new generator gifted by the Australian Government to Tonga Power Ltd at Popua Power Station in Anana. She was welcomed by Mt. Tapu Panuve, Chairman of Tonga Utilities Board,

and Mr. Finau Moa, Acting CEO of Tonga Power Ltd. The generator enhances Tonga Power's capacity, ensuring a reliable power supply for Tongatapu. Mr. Panuve expressed gratitude for Australia's donation, highlighting the generator's crucial role in addressing recent power outages. Australia recognizes the need for interim support in Tonga's energy transition and aims to assist in achieving clean energy goals for a sustainable future.

- **Environment:**
  - A tree planting ceremony took place at the Fale Alea compound in Nuku'alofa, led by the Speaker of the House, and the Charge d'Affaires ad interim of the Chinese Embassy. The Chinese Government granted a total of $151,893.62 to the Legislative Assembly's Tree Planting initiative. Nurseries in Tonga have the opportunity to apply for grants of up to $10,000 through this program.
- **Gender:**
  - Australia launched the 16 days of activism against gender-based violence in Vava'u, alongside government and civil society partners. This initiative aims to combat violence against women and girls globally. Australia has shown strong support for Tonga's anti-violence efforts by providing funding for critical services for survivors of violence through the Women and Children Crisis Centre (WCCC) in Tonga, improving police response through the Families Free of Violence program, and bolstering the leadership of the Ministry of Internal Affairs' Women and Gender Equality Division. During the program, handover of new vehicles to Tonga Police's Domestic Violence Unit and WCCC to enhance their ability to respond to incidents and provide care to the community.
  - The Chargé d'Affaires ad interim of the Chinese Embassy to Tonga, Mr. Ruan Dewen, engaged with the UN Women Pacific Country Representative, Ms. Delphine Serumaga, and her team at the Embassy. The primary focus of their discussion revolved around exploring ways to enhance the role of Tongan women in contributing positively to their nation's economy.
  -
- **Postal services:**
  - Australia Post donated postal equipment, including electric delivery vehicles and motorbikes, to Tonga Post. The handover took place at an official ceremony attended by Australian High Commissioner HE Rachael Moore, Prime Minister Hon Hu'akavameiliku, Australia Post officials Tanya Thornton and Colin Hindle, Tonga Post Limited board members, CEO, and staff. Other items donated included wet weather gear, IT, and letter sorting equipment. Australia Post will also provide training for Tonga Post as part of the Pacific Postal Development Partnership.
- **Fire & emergency services:**
  - South Australia handed over two fire trucks and equipment to Tonga Fire & Emergency Services, continuing a partnership that began in 2004. South Australia has been a significant supporter of Tonga's firefighting capabilities, with 90 percent of Tonga's fire truck fleet donated by South Australia. The trucks will aid in firefighting during the upcoming El Nino period and enhance cyclone response efforts.
- **Deep sea mining:**
  - Prime Minister Hon. Hu'akavameiliku held a bilateral meeting with the President of the Republic of Nauru, HE David Adeang, to discuss collaboration on mutual interests in deep sea mining. The Prime Minister emphasized the significance of this meeting as an opportunity for strengthening the relationship between Tonga and Nauru, aiming to promote safety, resilience, and prosperity in the Pacific Region.

- **Aviation:**
    - Mr. Shane Sumner, ICAO Liaison Officer for the Pacific Small Island Development States (PSIDS), visited Tonga from February 27 to March 1, 2024. Hosted by Tonga's Ministry of Infrastructure - Civil Aviation Division (MOI/CAD), Mr. Sumner, stationed in Nadi, Fiji, acts as a communication focal point for PSIDS in line with ICAO's objectives. This inaugural visit strengthened communication between Tonga and ICAO, focusing on aviation sector priorities, global objectives, and upcoming projects like the SAR project and GSI training. Mr. Sumner engaged stakeholders, including MOI/CAD, Tonga Airports Ltd, Lulutai Airlines, and Tonga Police, fostering collaboration for Tonga's aviation sector development
- **Diplomacy:**
    - Secretary Blinken's visit to Tonga is history,marked the first visit by a sitting U.S. secretary of state to the country demonstrating strong commitment to strengthening bilateral relations. Resumption of the Peace Corps mission in the country and the establishment of the US embassy in Tonga is an outcome of this visits.
    - The United Kingdom Minister of State for Indo-Pacific, R. Hon. Anne-Marie Trevelyan visited Tonga for her inaugural ministerial visit since the re-opening of the British High Commission in 2020. During her visit, she held bilateral meetings with Tonga's Acting Prime Minister and Minister for Foreign Affairs to discuss investment opportunities and support to climate challenges.

Immigration Support in the Pacific

In support of the Migration and Sustainability Development Policy (MDSP) for Tonga, immigration support will provide technical assistance for Tonga including the rollout of the landmark border management system in all key airports and seaports for Tonga in 2023.

Bilateral and Multilateral Strengthening Partnership

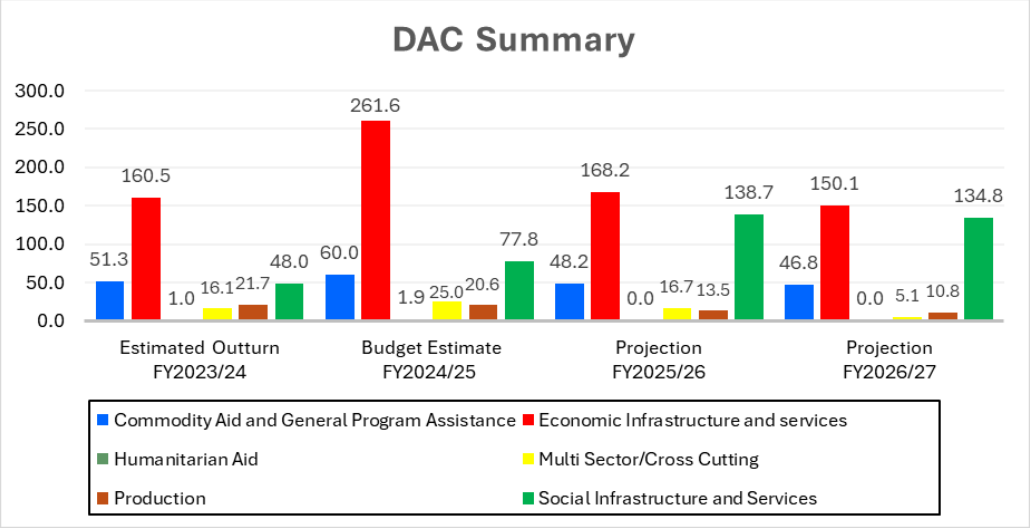
This comprises various programs and engagements that the Government and its Development Partners continue to coordinate closely on towards strengthening and/or build new partnerships. The key programs targeted for the upcoming years include the preparation for the PIFs Forum in the upcoming FY 2025, and other bilateral and multilateral meetings with respective Donors and various Development Partners.

ANNEX IV: DEVELOPMENT BUDGET FY 2023 – 2027

11.1 Development funded Project Expenditure by Development Aid Classification (DAC)

The *A-Figure 27* shows that the Economic Infrastructure and services continue as the dominant contributor of 59.0 percent or $261.6m of the total development budget estimate for FY 2025. This reflects by the heavy investment in infrastructure such as Parliament New Building, Wind Power Stations, Ports/jetties, Roads, and other Government key infrastructures. The Social Infrastructure and services estimated $77.8m or 17.0 percent as contributing to Education, Health, Water Supply, Sanitation, support to Civil Society and others. Other sectors such as Production and Multi-Sector/Crosscutting continue to be supported by development partners in the coming years.

A-Figure 27: Development funded Project Expenditure by Development Aid Classification (DAC)



Source: Ministry of Finance (MOF)

11.2 FY 2025 Development Budget by Development Partners

World Bank: The World Bank development assistance for FY 2025 is amounted to $92.2m.

- **Tonga Climate Resilient Transport Project (TCRTP) I & II**: Tonga Climate Resilience Transport Project phase one is approaching its final stages and is due to be completed in December 2024. The project's remaining activities include upgrading of the Niuafo'ou Port, rehabilitation of Vava'u and 'Eua roads, Loto and Liku Road in Tongatapu. The second phase of the project will continue with road rehabilitation, Hoi-Kolonga road, Liku road, Vava'u V10 & V17 roads, 'Eua Airport runway. Also, the supply of fire trucks, bird and monitoring vehicles for Tongatapu, Vava'u, Ha'apai and the Niuas with their sheds and slipway for domestic vessels in Nuku'alofa.
- **Skills & Employment for Tongans (SET) Project:** The Skills and Employment for Tongans Project are gradually approaching its final stages and due to be completed in September 2024. The Ministry of Education and the Ministry of Internal Affairs will continue to deliver the core project activities including financially assisting selected students at the Secondary School level and TVET and carrying out pre-departure training for seasonal workers and capacity building for Overseas Employment Division under MIA.
- **Tonga Safe and Resilience Schools Project (TSRSP):** The TSRSP implementation is now progressing with the construction of the 'Atele dormitories, classrooms and staff quarters affected by the volcanic eruption and tsunami in 2022 throughout Tongatapu and the outer islands. The project will also support the development of the Education Management Information System (EMIS) and improve the quality of curriculum and assessments.
- **Pacific Resilience Program (PREP):** One major component of this project which is expected to be completed in April 2025 is the construction of the Meteorology/NDRMO headquarters. Other activities include marine and telecommunication infrastructure, seismic and volcanic monitoring.
- **Tonga Digital Government Support Project (TDGSP):** This project will also end in May 2025. The major components include policy statement s and legal framework for digital economy, enabling environment and continuous improvement, regulatory function and cybersecurity bill, enterprise architecture, civil registration, and national ID system.
- **Pathway to Sustainable Ocean Project (PSOP).** This project is at its completion stage, ending April 2025. Remaining activities include SMA compliance boats with boat sheds, knowledge base fisheries and aquaculture, sustainable fisheries, and management plan.

- **Statistical Innovation and Capacity Building in Tonga (SICBT).** This project closes in March 2026 and major components include risk exposure mapping, price indices and tourism satellite.

Asian Development Bank

The ADB's Pacific Approach 2021 – 2025 serves as the country partnership strategy for Tonga. The Bank's assistance to Tonga focuses on renewable energy, transport infrastructure, health systems, social protection, urban development, disaster recovery and fiscal management.

The estimated support from ADB for FY 2025 total to $67.5 m through project implementation.

- **Integrated Aged Care Project** is the newest development project that become effective in February 2024 aims to develop a range of safe and high-quality integrated care services for older people and support to caregivers. This project is currently moving forward with the implementation phase.

- **Nuku'alofa Port Upgrade Project** continues with the implementation of upgrading the Queen Salote Wharf in Nuku'alofa by improving its operations to be resilient to disaster risks and climate change. On 21st April 2023, the additional financing of US$30.0m was approved by the Australian Infrastructure Financing Facility for the Pacific (AIFFP) with a co-financing with ADB. Phase 1 of the project is scheduled to be completed by June 2024 and the final completion of the project is also scheduled for quarter 2 of 2025.

- **The Integrated Urban Resilience Sector Project** is gradually progressing implementation at this current financial year. The project's closing date was set for 31st March 2026, but has been extended for 24 months to allow the completion of all project activities. The bidding document for flood mitigation works for public lands has been advertised. Tonga Water Board has received few of their purchasing packages to assist with the upgrade and rehabilitate the water supply pipe network in Nuku'alofa. The constructions for Tapuhia's Waste Management Facility Office and Cell 3 are currently ongoing at the landfilled assuming to be completed by December 2024. IURSP has assisted Waste Authority Limited (WAL) by providing crane trucks, rear loader compactor trucks, and a septage tanker truck.

- **Nuku'alofa Network Upgrade II Project** comprises improvements of Nuku'alofa electricity network system, promote Tonga Power Ltd capacity and the gender inclusive of its operations. ADB is fully funding this project under the Pacific Renewable energy Investment Facility Fund for the Nuku'alofa Urban areas. The project activities are progressing well with the target to be completed by December 2024. The percentage completion as at the end of January 2024 is 38 percent.

- **Tonga Renewable Energy Project** supports the installment of battery energy storage systems on Tongatapu and grid-connected renewable energy generation, renewable-based hybrid systems and mini-grids on outer islands. The solar energy and battery energy storage system (BESS) have been installed in Tongatapu, 'Eua and Vava'u. The remaining scope is the off-grid 100 percent renewable mini-grid systems for the islands of Niuafo'ou, Kotu, Tungua, Mo'unga'one and 'O'ua to be completed in July 2024. Also, off-grid mini grid systems for four Vava'u outer islands of Hunga, Ofu, 'Otea and Falevai is to be completed by November 2024. Finally, the generation and distribution management system for Tongatapu is expected to be completed in April 2024. TREP will be completed by November 2024.

- **System Strengthening for effective coverage of New Vaccines in the Pacific** Distribution of vaccines is done monthly for the main island Tongatapu while Vava'u, Ha'apai, 'Eua and the two Niuas, the vaccine orders come in quarterly. The review of the Immunization Policy, Health worker handbook and Cold Chaib Policy was completed in November 2023. The Integrated Project Management (IPM) Team has assessed all Health Centers and RH Clinics in Tongatapu, Vava'u

and ‘Eua to identify most needed equipment and to promote staff capacity, including office space renovations.

- **Introducing E-government through Digital Health** has launched the National Health Information System (NHIS) at Vaiola, Niu’eiki and Prince Ngu Hospital and seven health centers in Tongatapu. The project will continue to monitor the maintenance of the information health sector and to be handed to government by 2026. The Personal Health Information Privacy Act (PHIPA) is awaiting cabinet approval as the enabling environment for the NHIS.

- **Pacific Disaster Resilience Program** continues to support policy actions to strengthen Tonga’s resilience to disasters, health emergencies and provides a source of contingent, fast-disbursing financing of US$10.0m assisting the government’s emergency response and recovery efforts.

Government of Australia

The Government of Australia has committed $73.3m in FY 2025 across four focus areas of investment.

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

Ongoing projects include:

- Additional Budget support signed in December 2022 of up to $47.0m was used to strengthen government’s position post HTHH in supporting reconstruction, stabilization of Government services, COVID-19 support and empowering the vulnerable. Moving forward into FY 2025, half of the envelope will build both the Prince Ngu Vava’u hospital and the Queen Salote Nursing School.

- DFAT is also co-financing other projects such as Energy, Education and Parliament House. DFAT continue to support the Health Sector through Tonga Health Systems Support Program Phase 3 (THSSP) under the Ministry of Health to deliver a more effective, efficient, and equitable preventative and primary care service for the Tongan population, with a particular focus on non-communicable diseases (NCDs). Support through THSSP 3 remained critical increased access to health services in the outer islands, enabling clinicians to continue to provide general medical, surgical, mental health, rehabilitation, dental, and diagnostic outreach missions. Community health programs and outreach continued, including the Healthy Village pilot which focuses on community ownership for health promotion to prevent NCDs at the village level. Essential pharmaceutical procurements for the treatment of NCDs also continued under THSSP 3

- Moving Forward, Australia is committed to invest approximately AUD$100 m support package into Tonga, over the next 5 years. This has included providing AUD$15 m into the energy sector and an additional AUD$15 m as general budget support that will be invested into health infrastructure, agriculture, and the education sector. This AUD$30-million-dollar package is expected to be received before the end of June 2024.
-
- DFAT continues to provide support to Lulutai Airlines for the training of the new Twin Otter to prepare for its entry into official service.
- The Australian Government continuously awards Regional Scholarships and supports Tonga USP Campus Scholarships.

Government of New Zealand

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

New Zealand's Development assistance for FY2025 comes to $49.1 m, across three broad thematic areas.

1. Support for governance institutions in Tonga, to promote stability and prosperity.
2. Support the Tongan public sector's ability to deliver high-quality services and better outcomes for Tongan communities.
3. Support to assist Tonga to build a strong and resilient economy.

Major Projects include:

- Additional budget support of approx. $33.0 m received during FY 2024 has been earmarked for major investments in the transport and education sector, together with ongoing support to both the tourism and sports sector. Moving forward to FY 2025, there will be a focus on providing affordable housing for the most vulnerable members of the community.
- Tonga Parliament House co-financed with Australia is expected to be mobilized in September 2024.
- Tonga Health Workforce Activity, Medical Treatment Scheme, Drug and Alcohol Treatment and develop Tonga's Health Workforce to deliver quality health services and improve health for Tongan communities.
- Tonga Police Development Program embeds investment in infrastructure and capability development delivered under the concluded Tonga Police Development Program through people development, information management, corporate development, and intelligence and investigations.
- Due to the aftermath of HTHH, New Zealand has provided support for the construction of the Eua Wharf Bridge.
- Tonga ICT Cable Redundancy - NZ financial contribution to resolving Tonga's need for ICT cable redundancy; and
- Scholarship Program – The Government of New Zealand provides both regional and Pacific scholarship awards.

European Union: The European Union (EU) Neighbourhood, Development, and International Cooperation Instrument (NDICI) 2021-2027 program will start in FY 2024 engaging priority areas under the continued Budget Support implementation modality with Technical Assistance support for Capacity Building & Support to Civil Society Organizations. European Union continuous to assist with the Energy Sector in Tonga under their budget support program. The EU's support will mainly focus on the adoption of the Energy Act and the Energy Road map for the next 5 years.

People's Republic of China

The People's Republic of China has assisted the Government by supporting agricultural livestock for food security, the renewable energy sector, medical experts, and infrastructure development. PRC's support moving into FY 2025 comes to a total of $72.5 m which includes projects such as:

- Ongoing medical experts to increase capacity in the health sector, together with the continuing wind farm project to decrease Tonga's dependency on fossil fuels.
- China Aid Agricultural Technical Cooperation is to further continue to assist with vegetable farming and livestock production.
- Sports Technical Assistance Project enables Tonga Sports' team to have first had experience, through an exchange program with Chines coaches.
- Tonga High School Sports Complex Phase 2 is currently on track to be completed in August 2024.
- The upgrade of the Mala'e Kula Royal Tombs has started in February 2024 and is expected to take approx. 22 months to complete.

- PRC continues to assist the Ministry of Revenue & Customs with ongoing maintenance of essential boarder control equipment.
- Tonga Fire & Emergency Services have planned to seek PRC support, earmarked for a new Headquarters and administration building.

Government of Japan

Japan's cooperation continues to support the Government through:

1. Non-Project Grant Aid (NPGA) programs are ongoing to support economic and social development efforts including poverty reduction. Agriculture processing and research & development equipment for the Ministry of Agriculture, Food and Forests has completed its exchange note in FY 2023. Provision of equipment for practical disaster management was received in October 2023. Equipment of other NPGAs in the past is to be received in due course.
2. Grant Assistance for Grass-root Human Security Project (GGP) is an annual assistance committed to small grass-roots level community projects with several communities recently supported such as upgrading of Popua Government middle School, Tokomololo water supply system and Navutoka water supply system.
3. JICA General Grant Aid Programme: Nationwide Early Warning System (NEWS) Project, which has completed and handed over to the Government in October 2022, had been financed additional equipment of RAR (Radio Alert Receiver) and Control Box expecting to be installed in April 2024. The Survey and design for the Fua'amotu International Airport upgrade are still on going.
4. JICA Technical Cooperation:
    1. The Project for Pacific Co-Learning towards Resilient Health and System (2023-2028) with MOH targeting NCD has started in June 2023.
    2. J-PRISM3 (Pacific Region Waste Management Project phase3 2023-2028) with MEIDECC, WAL targeting seif-sustaining solid waste management and 3R+Return has started in July 2023.
    3. Third Country Training Program under the collaboration of World Custom Organization (WCO) and JICA for Master Trainer Program with Tonga Custom (2021-2024) is continuing until June 2024 and the next phase focused on Risk Management and Post Clearance Audit will start for 3 years.
    4. The Project for Improving Grid Operation under the Centralized Control Center with TPL starts in the first half 2024 for 2 years.
    5. The Project for strengthening Capacity to implement the Vision of Build Back Better will starts within 2024 based on the result of the Preliminary Survey for the Formation of Disaster Recovery Projects against HTHH Volcanic Eruption and Tsunami Damage completed in the end of 2023.
    6. The Project for Disaster Risk Reduction of Widespread Volcanic Hazards in Southwest Pacific Countries / SATREPS with the Ministry of Land and Natural Resources will start in April 2024.
    7. 2 Pacific Region Project: The Project for Innovative Solutions for Pacific Climate Change Resilience with PCCC (2024-2027) and The Project for Energy Transition in the Pacific Islands Countries, both are phase2, will start in 2024 and provide training opportunity to Tonga.
    8. JICA Individual Expert: The Debt Management Advisor to the Ministry of Finance is expected to complete his assignment in July 2024. The Advisor for Capacity Development of Road Planning, Road Asset Management and Car Inspection to the Ministry of Infrastructure is expected to be dispatched in 2024.
    9. Knowledge Co-creation Program: inviting about 20 participants for short-term program and some candidates for 2–3-year graduate program in Japan from Tonga.
    10. JICA Volunteers: continuously dispatched in various sectors such as Education, Health, Fisheries, Disaster Management and Environment.

United Nations

Tonga is served by the UN Multi-Country Office (MCO) for the Pacific Islands that based in Fiji. The UN system aspires to a Pacific region where "All people, leaving no place behind, are equal and free to exercise their fundamental rights, enjoying gender equality and peace, resilient to the existential threats and living in harmony with the blue continent." There are currently 8 resident UN agencies and 13 UN staff based in Tonga to support the UN's work. This includes FAO, WHO, IOM, UN RCO, UNFPA, UNCDF, UN-Women, and UNDP.

The United Nations Sustainable Development Cooperation Framework (UNSDCF) 2023-2027 replaced the UN Pacific Strategy 2018-2022. The new Country Implementation (CIP) 2023-2024 for Tonga is based on 4 priority areas: i) Planet; ii) People, iii) Prosperity; and iv) Peace.

The UN's interventions in Tonga fall into two broad categories (1) interventions by operational agencies working closely with national counterparts and (ii) interventions that seek to include Tonga within both regional and international processes and bodies as part of an ongoing commitment to South and Triangular Cooperation.

Green Climate Fund

Tonga is still underway to become an accredited entity for the GCF facility. The Government of Tonga receives financing through international accredited entities in providing technical assistance to review and provide necessary reform approaches for an energy project.

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

CROP Agencies

The CROP Agencies continue to support managing water scarcity through water resource management implemented by the Ministry of Lands & Natural Resources which is co-financed by MFAT and SPC. The Pacific Islands Forum Secretariat assists with the preparation for the Pacific Leaders Forum to be held in August 2024.

Other Donor Funds

This includes the Korean and India Grant that the government receives on an annual basis. Government priorities for the Korean Fund is towards specialized equipment for the Ministry of Health while the Government of Tonga awaits India's endorsement on the support to affordable houses. The Government of Saudi Arabia donates a US$5m to establish a National Museum for Tonga.

11.3 Development Expenditure by DAC by Location

A- Table 29:Development funded Project (Expenditure by DAC) ($m) by location

DAC Sector	Actual FY2022/23	Approved Budget FY2023/24	Estimated Outturn FY2023/24	Budget Estimate FY2024/25	Projection FY2025/26	Projection FY2026/27
Eua	**4.6**	**8.3**	**6.0**	**8.9**	**6.3**	**7.9**
Economic Infrastructure and services	4.6	7.9	5.9	6.3	2.3	4.4
Social Infrastructure and Services	0.0	0.4	0.1	2.6	4.0	3.5
Ha'apai	**8.7**	**6.8**	**9.2**	**8.0**	**7.3**	**6.8**
Economic Infrastructure and services	8.0	6.5	7.1	5.1	2.6	3.2
Multi Sector/Cross Cutting	0.0	0.1	0.1	0.7	0.6	0.0
Production	0.2	0.1	0.0	0.1	0.1	0.1
Social Infrastructure and Services	0.5	0.1	2.0	2.1	4.0	3.5
Nationwide	**127.2**	**126.6**	**109.2**	**171.4**	**149.8**	**155.8**
Commodity Aid and General Program Assistance	8.9	0.0	15.8	31.0	46.2	45.2
Economic Infrastructure and services	61.5	50.1	51.4	98.5	55.0	52.9
Humanitarian Aid	0.0	0.0	0.7	1.9	0.0	0.0
Multi Sector/Cross Cutting	13.7	17.1	9.6	10.0	0.5	0.5
Production	4.4	14.7	12.9	16.7	10.2	8.0
Social Infrastructure and Services	38.7	44.7	18.8	13.3	37.9	49.2
Niuafo'ou	**3.8**	**3.9**	**3.0**	**2.5**	**0.1**	**0.1**
Economic Infrastructure and services	3.6	3.6	2.8	0.9	0.1	0.1
Production	0.1	0.3	0.2	0.2	0.0	0.0
Social Infrastructure and Services	0.1	0.0	0.0	1.4	0.0	0.0
Niuatoputapu	**2.6**	**0.0**	**0.0**	**0.1**	**0.1**	**0.1**
Economic Infrastructure and services	2.6	0.0	0.0	0.1	0.1	0.1
Overseas	**0.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Economic Infrastructure and services	0.6	0.0	0.0	0.0	0.0	0.0
Tongatapu	**65.9**	**193.9**	**151.6**	**237.6**	**193.7**	**152.2**
Commodity Aid and General Program Assistance	4.3	0.0	35.4	29.0	2.0	1.6
Economic Infrastructure and services	20.0	87.0	75.7	142.6	105.7	86.3
Multi Sector/Cross Cutting	6.1	16.7	6.4	14.3	15.6	4.6
Production	8.1	10.3	8.4	3.5	3.1	2.6
Social Infrastructure and Services	27.4	79.9	25.7	48.2	67.3	57.1
Vava'u	**15.5**	**25.1**	**19.6**	**18.4**	**28.0**	**24.7**
Commodity Aid and General Program Assistance	0.0	0.0	0.1	0.0	0.0	0.0
Economic Infrastructure and services	12.0	23.7	17.6	8.1	2.4	3.1
Humanitarian Aid	0.0	0.0	0.3	0.0	0.0	0.0
Multi Sector/Cross Cutting	0.1	0.1	0.0	0.0	0.0	0.0
Production	0.1	0.0	0.2	0.1	0.1	0.1
Social Infrastructure and Services	3.3	1.3	1.4	10.2	25.5	21.5
Grand Total	**228.9**	**364.7**	**298.6**	**446.9**	**385.3**	**347.6**

Source: Ministry of Finance (MOF)

ANNEX V: RECURRENT BUDGET PERFORMANCE IN FY 2023

12.1 Recurrent Budget Performance in FY 2023

A recurrent budget surplus of $11.3m is estimated to have been achieved at the end of FY2023, due to better than anticipated performance in domestic revenue collecting of $27.2m more than the original target; together with an under-spending of the budget by $42.1m.

The positive performance of domestic revenue was reflected mainly in the collection under consumption tax (CT) on imports, which is categorized under the Tax on Goods and Services (collecting $21.7m more than the target). This was followed by positive performance from the income tax category (collecting $9.8m more than target), which was mainly from large businesses' income tax receipts, partially implying gradual recovery from COVID-19 and recent disasters.

The under-spending of the budget was mainly from the Operational spending category (under-spent by $33.7m) due to more prudent management of spending and some delays in spending of some key project allocations but are carried forward to the next FY2024. This includes the Illicit Drugs Response Fund and

the Economic growth fund. These were followed by under-spending also in the Wage bill category (under-spent by $9.0m) mainly due to vacancies yet to be filled.

A- Table 30:Recurrent Budget Overview Performance ($m) in FY 2023

FY2023 Recurrent Budget Overview Performance	Original Budget 2022/23	Actuals 2022/23)	*Variance ($)*	*Variance (percent)*	*Percent of budgetspent / collected*
Revenues	**406.8**	**406.3**	***-0.5***	***-0.1%***	***100%***
Domestic Revenues	325.3	352.5	*27.2*	*8.4%*	*108%*
Tax	**245.6**	**278.1**	***32.5***	***13.2%***	***113%***
Income Tax	48.2	58.0	*9.8*	*20.4%*	*120%*
Trade Taxes	23.3	25.8	*2.5*	*10.9%*	*111%*
Tax on Goods & Serv.	106.6	128.3	*21.7*	*20.4%*	*120%*
Excise Tax	67.6	66.0	*-1.6*	*-2.4%*	*98%*
Non-Tax	**79.7**	**74.4**	***-5.2***	***-6.6%***	***93%***
Fees & Licenses	28.2	27.6	*-0.6*	*-2.3%*	*98%*
Entrepreneurial & Prop.	11.6	9.9	*-1.7*	*-15.0%*	*85%*
Miscellaneous	1.2	0.5	*-0.7*	*-58.7%*	*41%*
Capital & Transfers	38.6	36.5	*-2.2*	*-5.6%*	*94%*
Budget Support	81.5	53.7	*-27.7*	*-34.0%*	*66%*
Expenditures	**437.0**	**394.9**	***42.1***	***9.6%***	***90%***
Wage Bill	172.9	163.9	*9.0*	*5.2%*	*95%*
Operations	204.1	170.4	*33.7*	*16.5%*	*83%*
Assets	16.5	17.2	*-0.6*	*-3.8%*	*104%*
Debt	43.6	43.5	*0.0*	*0.1%*	*100%*
Balance	**(30.2)**	**11.3**	***41.6***		

Note: there may be discrepancies in the sub-totals due to the rounding-off of the nearest millions.

Source: Ministry of Finance (MOF)

12.1.1 Revenue Budget by Major Category

A- Table 31:Recurrent Revenues by Category

	Original Budget	Actuals 2022/23	*Variance ($)*	*Variance (percent)*	*percent of budgetcollected*
Income Tax	48,152,700	57,966,360	*9,813,660*	*20%*	*120%*
Trade Tax	23,286,000	25,819,068	*2,533,068*	*11%*	*111%*
Tax on Goods & Services	106,609,000	128,343,026	*21,734,026*	*20%*	*120%*
Excise Tax	67,588,500	65,999,567	*- 1,588,933*	*-2%*	*98%*
Fees and Licenses	28,196,700	27,567,896	*- 628,804*	*-2%*	*98%*
Entrepreneurial and Property	11,584,600	9,852,416	*- 1,732,184*	*-15%*	*85%*
Miscellaneous	1,236,700	511,035	*- 725,665*	*-59%*	*41%*
Capital & Transfers	38,642,100	36,493,698	*- 2,148,402*	*-6%*	*94%*
Budget Support	81,469,600	53,733,317	*- 27,736,283*	*-34%*	*66%*
Grand Total	**406,765,900**	**406,286,383**	***- 479,517***	***0%***	***100%***

Source: Ministry of Finance (MOF)

Income Tax

PAYE receipts collected from government employees exceeded the original target primarily due to an increase in the number of recruitments and promotions during the financial year. In addition, was a collection of arrears on deferred income tax receipts from large businesses during the COVID-19 pandemic, but also that these businesses were gradually recovering from the pandemic and HTHH impacts. Furthermore, there were improved administration and working relationship between the Inland Revenue department and taxpayers including non-resident employees to collect their withholding tax revenues, coupled with an increase in number of non-resident employees in FY2023 since the COVID-19 lockdown period.

Trade Tax

Higher than targeted collection due to relevant duty exemptions that were lifted since December 2022, particularly those related to relief efforts during the pandemic and HTHH impacts.

Tax on Goods & Services

This category was the main driver of positive performance in tax revenue collection, which was attributed to the higher prices and increase in the volume of goods imported, but also the tax exemptions being lifted since December 2022, particularly those related to relief efforts during the pandemic and HTHH impacts. In addition, the implementation of the cash registers or the POS (Point of Sale) system Project helped enhanced efforts to track and report on more businesses and their accurate record keeping of tax information (using real-time data), leading to higher collection in domestic Consumption Tax (CT).

Excise Tax

The lower collection from excise tax in FY2023 may be attributed to various factors including, lower demand for the related imported goods subject to excise tax such as fuel, cigarettes, and alcohol due to continuous inflationary pressures and lower levels of supply. At the same time, the supply levels may still be high but some of these imported goods may have changed their contents that would no longer qualify them under the related excise taxes. For example, an earlier imported type of fizzy drink would now have had a lower level of sugar content than before.

Entrepreneurial and Property Income

Majority of the under-collection was the lower than targeted amount of dividend received from the National Reserve Bank of Tonga in line with economic conditions and monetary policy stance. This lower collection off-set an increase in dividend arrears collected from public enterprises such as the Ports Authority of Tonga.

Capital and Transfers

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

Budget Support

Receipts worth $27.7m could not be collected during the FY as expected from the World Bank, the Asian Development Bank, and the European Union. However, these are expected to be received in the forthcoming FY2024.

12.1.2 Recurrent Budget: Expenditure Categories

A- Table 32:Recurrent Expenditure by Category FY2023

	Original Budget	Actuals 2022/23	*Variance ($)*	*Variance (percent)*	*percent spent/ received*
Established Staff	155,765,900	147,597,721	*8,168,179*	*5%*	*95%*
Unestablished Staff	13,223,200	12,039,533	*1,183,667*	*9%*	*91%*
Travel & Communications	11,263,800	19,649,568	*- 8,385,768*	*-74%*	*174%*
Maintenance & Operations	20,265,800	23,787,674	*- 3,521,874*	*-17%*	*117%*
Purchase of Goods & Services	62,659,200	64,443,401	*- 1,784,201*	*-3%*	*103%*
Grants & Transfers	89,239,300	58,109,145	*31,130,155*	*35%*	*65%*
Development Duties	4,626,700	2,721,451	*1,905,249*	*41%*	*59%*
Debt	43,580,000	43,549,734	*30,266*	*0%*	*100%*
Contingency Fund	5,000,000	-	*5,000,000*	*100%*	*0%*
Pension & Gratuities	3,871,900	4,106,425	*- 234,525*	*-6%*	*106%*
Assets	16,525,100	17,150,751	*- 625,651*	*-4%*	*104%*
Equity Payments	1,000,000	400,375	*599,625*	*60%*	*40%*
Private Sector Development	10,000,000	1,385,197	*8,614,803*	*86%*	*14%*
Grand Total	**437,020,900**	**394,940,975**	***42,079,925***	***10%***	***90%***

Source: MOF, 2023

Wage Bill Categories[32]

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

Travel and Communications – Travel and Communications – was higher than originally anticipated by $8.4m due mainly to an increase in overseas travel costs as borders re-open since the COVID-19 pandemic lockdown and most international meetings that used to hold virtually during the pandemic were now resumed face-to-face, and so were domestic travel costs due to the national agricultural show after being deferred since the pandemic.

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

Purchase of Goods & Services – the major attribution to the higher than originally budgeted allocation was the spending of government ministries on electricity, reflecting the inflationary pressures experienced during the FY.

Grants and Transfers – as the major driver of under-spending in the FY2023 recurrent budget, there were centralized funds under the vote of the Ministry of Finance that were meant for public-sector reform and combatting of illicit drugs for instance but could not be able to fully utilize. In addition, there was a $10.0m allocation for the HTHH post-reconstruction that the government was able to save because of financial support from development partners in the recovery efforts.

[32] (incl. Established Staff, Unestablished Staff and Pension/ Gratuities)

ANNEX VI: TONGA's RECOVERY AND RESILIENCE TO CLIMATE CHANGE AND DISASTERS

13.1 HTHH Volcanic Eruption and tsunami

HTHH Recovery

Given Tonga's vulnerability to natural disasters, climate change, and external shocks such as the pandemic, the government has implemented various measures to aid the country's recovery after the pandemic and HTHH. These measures include, HTHH and National Emergency funds, border controls, and financial support for essential sectors like Agriculture, Fisheries, Tourism, Education and Health.

With support from government and development partners, the government has initiated several strategies for HTHH disaster recovery, including:

1. Economic Support: Providing financial assistance, loans, or grants to businesses and individuals affected by the disasters can help jumpstart the local economy.
    - GDL Loans to the affected sector
    - Assistance to Affected Businesses: $0.3m
2. Household and social assistance: Vulnerable groups, such as the elderly and people with disabilities, receive social support like food aid and financial assistance.
    - One off Assistance to Elderlies & Disabilities: $1.2m
3. Residential and housing aid: Affected households, particularly those with completely destroyed or damaged residences, receive support for rebuilding and housing.
    - One off Assistance to Affected Households: $0.4m
    - Food for Affected Families and Emergency workers: $0.1m
4. Infrastructure investment: Prioritizing infrastructure investments to stimulate economic growth and job creation, focusing on areas like roads, HTHH reconstruction, water systems, and renewable energy.
    - Reconstruction- Partial Damage Pay-out: $0.3
    - Reconstruction of Residencial Houses: $15.7m

    Commitment
    - Reconstruction of residential house: $13.2 m
    - Government Offices (Ha'apai $2.0m, 'Eua $1.0m, Nomuka $0.4m): $3.4m
    - Non-residential houses- Community Halls ('Atataa si'i, Matatoa, Mango (Ta'anga), 'Ohonua, Lofanga, Mo'unga'one): $2.0m
5. To address the challenges faced by the tourism industry, a comprehensive recovery plan named "Build Back Better" has been formulated. This strategy encompasses targeted marketing campaigns, infrastructure rebuilding initiatives, and dedicated support for small tourism enterprises, all aimed at reviving the sector.
6. Disaster preparedness: Intensified efforts in disaster preparedness, including drills and simulations to test response capabilities, alongside the development of emergency response and recovery plans, particularly considering tsunami risks.
7. Securing funding: Measures have been taken to ensure availability of emergency funding under the Emergency Act and Resilience Funding to address unforeseen crises.

A-Table 33 is the financing plan for the remaining works of the HTHH Reconstruction Project. This outlines the winding down of the Project which is expected to be completed by June 2024. For the upcoming financial year, about 3.1 percent of the total budget is allocated and sourced primarily from the development budget. This includes allocation from major Projects such as the Tonga Safe and Resilient Safe Project (TSRSP) with 9 out of 10 tsunami and risk-based Primary schools (Kanokupolu, 'Eueiki, Kolomotu'a, Tungua, Nomuka, Fonoi, Tupouto'a, Maamaloa and Maamafo'ou) expected to be completed in the upcoming FY; the Tonga Climate Resilient Transport Project (TCRTP) for the Nafanua Terminal and Wharf is also expected to be completed and including the reconstruction of the remaining Residential Houses of approximately 96 houses out of 260 as well as community halls.

A- Table 33:HTHH Reconstruction Estimated Allocation ($m)

Source of Funds	Original Budget FY2023/24 ($m)	Estimated Outturn FY2023/24 ($m)	Budget FY2024/25 ($m)
Cash	20.1	11.6	4.8
Inkind	10.5	8.6	6.1
Total	**30.6**	**20.2**	**10.9**
HTHH % to Total Budget			3.1%

Source: Ministry of Finance (MOF)

Job Creation

Tonga's labour market is both complex and under-developed, in the sense that there is a lack of skilled and qualified workers to meet an expanding local and international demand for skilled labour. There has not been much change to the main sectors of employment although there have been variations to sub-sectors employment and job creation opportunities due to two major demographics development: international temporary and permanent migration, and gradual declining population.

Informal employment and employment in the informal sector remain a significant part of Tonga's economic activities. In the formal wage economy, the major occupations in demand are for professionals, technicians and associate professionals, workers with craft and trade skills as well as for services and sales workers. However, there is also a significant demand for skilled agricultural, forestry and fishery workers.

Identified Tonga's labour market is both complex and under-developed, in the sense that there is a lack of skilled and qualified workers to meet an expanding local and international demand for skilled labour. There has been little change to the main sectors of employment although there have been variations to sub-sectors employment and job creation opportunities due to two major demographic development: international temporary and permanent migration, and gradual declining population.

Identified barriers to employment for current and prospect job seekers include low education attainment, lack of skills and pathways to employment, and a reliance on remittance which discourages youth job search. The high numbers of youth neither in education, training nor employment, and widely reported skills shortages imply that there are considerable skills mismatch between the demands of the labour market and the supply of skilled labour that emerges from Tonga's technical and vocational training institutions. Subsequently, businesses face the challenge of recruiting suitably qualified workers for a variety of occupations. This is evident in high skilled occupations such as IT, health, environment, and energy related occupations, as well as medium-skill occupations including the trades and certain hospitality related occupations such as cooks, retail, and service workers.

Implementing targeted employment initiatives can serve to improve labour market conditions that is conducive for business growth and job creation, and subsequently contribute positively to medium-term resilience. Some of these strategies include:

* Establish pathways to domestic employment for students and jobseekers.
* Develop and implement robust reintegration programs for migrant returnees, especially for return labour mobility workers.
* Implement labour management strategies to meet both overseas and domestic market labour demand.

* Public-private partnerships investment and innovation in key sectors of the economy such as agriculture, fishery, tourism, health, education and I.T.
* Strengthen support and cross-sector collaborations for micro-enterprises growth which includes entrepreneurship investment and support.
* Investment in high-quality education and strengthening of vocational instructions' capacities to meet business industry needs.
* Implement active labour market interventions such as employment support services and job search assistance.
* Long-term reforms to sustain growth of the labour market including, strengthening the legal framework on employment to improve job quality and promote decent work.
* Enhance the institutional capacity of government to design, implement and monitor innovative job creation and employment support programs.

Information Systems and Communication Technology

The recovery of Tonga following the tsunami has placed significant emphasis on the restoration and enhancement of Information Systems and Communication Technology (ICT). In response to the damaged done by the tsunami, Tonga has embarked on many initiatives to strengthen its ICT infrastructure and capabilities. The primary goal is to elevate communication efficiency, strengthen disaster preparedness, and enhance overall resilience. Key focal points of Tonga's recovery efforts in this domain encompass ICT infrastructure development, the establishment of emergency communication systems, and the utilization of ICT for streamlined disaster response. These measures collectively aim to improve Tonga's resilience against disasters and enhance its capacity to respond accurately to future challenges.

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

This is to provide relevant updates on the status of the Stimulus Package as at the end of March 2024. In summary, the remaining balance is summarized below:

14.1 Summary:

A. Stimulus Package ($60.0m):

A- Table 34:Stimulus Package - Summary

Funding Source	$(m)
1. Reccurent Budget	9.9
2. National Emergency Funds	3.8
3. Development Funds	11.4
4. Budget Support Pool Funds	34.8
Total Stimulus Package	**60**

Source: Ministry of Finance (MOF)

- **Remaining Balance from the Total Stimulus Package $60m at the end of March 2024: $86,700**

B. Detail

A- Table 35:Stimulus Allocation by Clusters

	Cluster	Approved Budget	Reallocation Budget	Actual Payments	Commitment	Balance as at 31st March 2024
1	Economic and Social Cluster	22.4	16.8	16.4	0.09	0.28
2	Education Cluster	1.0	1.3	1.3	-	-
3	Essential Services	1.0	1.0	1.0	-	-
4	Food Security and Livelihood	2.1	1.5	1.3	-	0.22
5	HN Wash Cluster	2.3	2.6	2.6	-	0.01
6	Logistic and Coordination	1.6	1.2	1.1	-	0.14
7	Safety and Protection	0.5	0.5	0.5	-	-
8	Shelter Cluster	4.0	10.0	10.0	-	-
	TOTAL	**35**	**35**	**34**	**0.09**	**0.65**

Source: Ministry of Finance (MOF)

The balance to date, as in ***A Table 35*** above, reflects the remaining balance: (i) **total actual** of $34.1m **total commitment** of $86,700 and the total balance of **$0.64** out of the approved budget (pooled funds) of $34.9m.

a) Stimulus Balance as to date by Cluster:

7. **Economic and Social Cluster -** $0.28m (Lead by MOF)
8. **Food Security and Livelihood -** $0.22m (Lead by MAFF and Ministry of Fisheries)
9. **HN Wash Cluster -** $0.1m (Lead by Ministry of Health)
10. **Logistic Cluster -** $0.13 (Lead by MEIDECC)

Total Stimulus Balance as to date: $0.64m: Divert all the remaining balance to health-related activities.

Total Commitment: $86,700: Domestic Freight Subsidy, expected to complete this program before the end of December, this year.

ACRONYMS

ADB	Asian Development Bank	**EE**	Energy Efficiency
ADF	Australian Defence Force	**ESSP**	Economic and Social Stimulus Package
AFP	Australian Federal Police	**EU**	European Union
AGO	Attorney General's Office	**EXIM**	Export-Import Bank of China
AIFFP	Australia Infrastructure Financing Facility Program	**EMA**	Emergency Management Act
AIP	Aid Investment Plan	**ESRS**	Electronic Sales Register System
AML/CFT	Anti-Money Laundering/Counter Financing Terrorist	**EMIS**	Education Management Information System
AO	Authorised Operator	**ESA**	Exchange Settlement Account
APG	Asia Pacific Group on Money Laundering	**ESCAP**	Economic and Social Commission for Asia and the Pacific
ASC	Annual School Census	**FAO**	Food and Agriculture Organization
ASP	Adaptive Social Protection	**FATF**	Financial Action Taskforce
BBB	Build Back Better	**FSL**	Food Security and Livelihood
BESS	Battering Energy Storage System	**FEC**	Foreign Exchange Control
BHN	Basic Human Needs	**FED**	Foreign Exchange Dealers
BSP	Bank South Pacific	**FEMM**	Forum fo Economic Ministers Meeting
Cat DDO	Catastrophe Deferred Drawdown	**Fisheries**	Ministry of Fisheries
CBD	Central Business Unit	**FIU**	Financial Intelligence Unit
CCT	Conditional Cash Transfer	**FY**	Financial Year (July – June)
CCTF	Climate Change Trust Fund	**GAP**	Good Agricultural Practices
CDs	Communicable Diseases	**GCF**	Green Climate Fund
CDF	Contingency Disaster Financing	**GDL**	Government Development Loan
CEO	Chief Executive Officer	**GDP**	Gross Domestic Product
CERC	Contingent Emergency Response Component	**GFS**	Government Finance Statistics
CNY	Chinese Yuan	**GGF**	Government General Fund
COLA	Cost of Living Adjustment	**GGP**	Grassroots Grant Project
COVID-19	Novel Coronavirus Disease 2019	**GLRF**	Gita Loan Recovery Fund
CSOs	Civil Society Organisations.	**GMS**	Government Middle School
CSU	Central Service Unit	**GPA**	Government Priority Agenda 2018-2021
CT	Consumption Taxes	**GPE**	Global Partnership of Education
CTCN	Climate Technology Centre and Network	**GPI**	Gender Parity Index
DAC	Development Assistance Committee	**GOT**	Government of Tonga
DFAT	Government of Australia	**GRADE**	Global Rapid Post-Disaster Damage Estimation
DFS	Digital Financial Services	**HelP**	Hama e-learning Platform
DGSF	Digital Government Strategic Framework	**HIES**	Household Income Expenditure Survey
DMO	Debt Management Office	**HMAF**	His Majesty's Armed Forces
DOD	Disbursed Outstanding Debt	**HTHH**	Hunga Tonga Hunga Ha'apai
DPP	Director of Public Prosecution	**IACP**	Integrated Age Care Project
DRM	Disaster Risk Management	**ICT**	Information Communication Technology
DRR	Disaster Risk Reduction	**IDA**	World Bank International Development Association
DSA	Debt Sustainability Assessment	**IDAs**	Initial Damage Assessment
DSSI	Debt Service Suspensive Initiative	**IDES**	Inclusive Digital Economy Scored
EAP	East Asia and Pacific	**IELTS**	International English Language Testing

ECE	Early Childhood Education	**IFAD**	International Fund for Agriculture Development
EDF	European Development Fund	**IFMIS**	Integrated Financial Management Information System
EDPO	European Development Policy Operation	**ILO**	International Labour Organization
IMF	International Monetary Fund	**NDC**	Nationally Determined Contribution
IURSP	Integrated Urban Resilient Sector Project	**NDICI**	Neighbourhood Development and International Cooperation Instrument
IMF	International Monetary Fund	**NDIP**	National Disability Inclusive Policy
JICA	Japan International Cooperation Agency	**NDRMO**	National Disaster Risk Management Office
JPRM	Joint Policy Rreform Matrix	**NEER**	Nominal Effective Exchange Rate
JPRM	Joint Policy Reforms Matrix	**NEF**	Nationally Emergency Fund
JNAP	Joint National Action Plan on climate change adaption and disaster risk management	**NEMO**	National Emergency Management Office
KMT	Kau Mai Tonga	**NEWS**	Nation Wide Early Warning System
KPIs	Key Performance Indicators	**NGOs**	Non-Government Organizations
KYC	Know Your Customer	**NIIP**	National Infrastructure Investment Plan
LA	Legislative Assembly	**NNUP**	Nuku'alofa Network Upgrade Project
LT-LEDS	Long-term Low Emission Development Strategy	**NPGA**	Non-Project Grant Aid
MAFF	Ministry of Agriculture, Food and Forestry	**NPL**	Non-performing Loans
MDAs	Ministries, Departments and Agencies	**NRBT**	National Reserve Bank of Tonga
MDF	Market Development Facility	**NSCC**	National Security Committee of Cabinet
MDS	Medium Term Debt Strategy	**NSPP**	National Social Protection Policy
MEIDECC	Ministry of Meteorology, Energy Information Disaster Management Environment and Climate Change	**NPUP**	Nukualofa Ports Upgrade Project
MET	Ministry of Education and Training	**NPV**	Net Present Value
MHEWS	Multi Hazard Early Warning System	**NZD**	New Zealand Dollar
MFA	Ministry of Foreign Affair	**NZ TCU**	New Zealand Transnational Organized Crime Unit
MFES	Ministry of Fire and Emergency Services	**ODA**	Overseas Development Assistance
MIA	Ministry of Internal Affair	**OECD**	Organization for Economic Cooperation and Development
MLNR	Ministry of Lands & Natural Resources	**OHI**	Open Heart International
MLW	Micro-loans for Women	**OET**	Overseas Exchange Transaction
MOF	Ministry of Finance	**OIREP**	Outer Island Renewable Energy Projects
MOH	Ministry of Health	**OISES**	Outer Islands Solar Electrification Society
MOI	Ministry of Infrastructure	**Pac REF**	Pacific Reginal Education Framework
MOJP	Ministry of Justice and Prisons	**PCRAFI**	Pacific Catastrophe Risk Assessment and Financing Initiative
MOP	Ministry of Police	**PCRIC**	Pacific Catastrophic Risk Insurance Company
MORC	Ministry of Revenue and Customs	**PEHS**	Package of Essential Health Services
MORDI	Mainstreaming of rural development innovation	**PFM**	Public Financial Management
MOT	Ministry of Tourism	**PIC**	Pacific Island Countries
MCO	Multi-Country Office	**PIRI**	Pacific Islands Regional Initiatives
MPE	Ministry of Public Enterprises	**PDRFP**	Pacific Disaster Risk Financing Programme

MPS	Monetary Policy Statement	**PEFA**	Public Expenditure and Financial Accountability
MSDP	Migration Sustainable Development Policy	**PEs**	Public Enterprises
MSME	Micro Small and Medium Enterprises	**PMO**	Prime Minister's Office
MTED	Ministry Trade and Economic Development	**PMS**	Performance Management System
NAP	National Action Plan	**PMU**	Project Management Unit
NAPID	National Action Plan on Illicit Drugs	**POS**	Point of Sale
NBFIs	Non-Bank Financial Institutions	**PPE**	Personal Protective Equipment
NCDs	Non-Communicable Diseases	**PPP**	Public-Private Partnership
PRC	People's Republic of China	**TESP**	Tonga Education Sector Plan
PREP	Pacific Resilience Program	**TESR**	Tonga E- Commerce Strategy Roadmap
PSC	Public Service Commission	**TF**	Terrorist Financing
PSIDS	Pacific Small Island Development States	**TFPP**	Tonga Fish Pathway Project
PSOP	Pathway to Sustainable Oceans Project	**TFSP**	Tonga Fisheries Sector Plan
PTCN	Pacific Transnational Crime Network	**THPF**	Tonga Health Promotion Foundation
RCF	Rapid Credit Facility	**THS**	Tonga High School
RCP	Regional Comprehensive Economic Partnership	**TSSF**	Tonga Student Support Fund
RDFD	Resilience Development and Financing Division	**THSSC**	Tonga High School Sports Complex
RIE	Regional Implementing Entities	**THSSP**	Tonga Health Sector Support Program
RID	Risk Informed Development	**TIOE**	Tonga Institute of Education
RMF	Road Maintenance Fund	**TJSSP**	Tonga Justice Sector Support Program
RMS	Revenue Management System	**TLMP**	Tonga Labour Mobility Policy
ROA	Return of Asset	**TMCL**	Tonga Market Corporation Limited
ROE	Return of Equity	**TNAC**	Tonga National Agriculture Census
RSE	Recognized Seasonal Employment	**TNFC**	Tonga National Fisheries Census
S.A.M.O.A	SIDS Accelerated Modalities of Action	**TAPP**	Tonga Australia Policing Partnership
SDG	Sustainable Development Goals	**TASP**	Tonga Agriculture Sector Plan
SDR	Special Drawing Rights	**TBC**	Tonga Broadcasting Commission
SET	Skills and Employment and Training	**TBS**	Tonga Bureau of Statistics
SMA	Special Management Areas	**TC**	Tropical Cyclone
SNA	System of National Accounts	**TC Gita**	Tropical Cyclone Gita
SPA	Specific Priority Areas	**TCC**	Tonga Communication Corporation
SPAM	Strengthening Protected Area Management	**TCES**	Tonga Circular Economu System
SPBD	South Pacific Business Development	**TCIRP**	Tropical Cyclone Ian Recovery Projects
SPC	South Pacific Community	**TCRTP**	Tonga Climate Resilient Transport Project Tropical
SPREP	Secretariat of the pacific Reginal and Environment Programme	**TDB**	Tonga Development Bank
SRD	Statutory Reserve Deposit 8	**TDGSP**	Tonga Digital Government Support Project
SWSE	Social Welfare Scheme for the Elderly	**TEEMP**	Tonga Energy Efficiency Master Plan
TAL	Tonga Airport Limited	**TREP**	Tonga Renewable Energy Project
TERM	Tonga Energy Road Map	**TRIP**	Tonga Rural Innovation Project
TESA	Tonga Education Support Activity	**TSD**	Tonga Statistics Department
TNIDP	Tonga Nationals Illicit Drugs Policy	**TSDF II**	Tonga Strategic Development Framework II
TNPS	Tonga National Payment System	**TSRSP**	Tonga Safe &Resilient School Project
TNU	Tonga National University	**TTA**	Tonga Tourism Association

TNYP	Tonga National Youth Policy	**TTPF**	Tonga Trade Policy Framework
TPD	Total Public Debt	**TTSR**	Tonga Tourism Sector Roadmap
TPDF	Transport Project Development Facility	**TVET**	Technical and Vocational Education and Training
TPL	Tonga Power Limited	**TWB**	Tonga Water Board
TRCS	Tonga Red Cross	**USD**	American Dollar
UN	United Nations	**USP**	University of the South Pacific
UNDP	United Nations Development Programme	**VNR**	Voluntary National Review
UNEP	United Nations Environmental	**WASH**	Water Sanitation Hygiene
UNSDCF	United Nations Sustainable Cooperation Framework	**WB**	The World Bank
UNESCO	United Nations Educational, Scientific and Cultural Organization	**WBG**	World Bank Group
UNFPA	United Nations Fund for Population Activities	**WCCC**	Women and Children Crisis Center
sUNICEF	United Nations Children Education Fund	**WEGET**	Women Empowerment Gender Equality
USA	United States of America	**WHO**	World Health Organization
USP	University South Pacific		