



**BY GOD'S GRACE
WE ARE SAVED
THROUGH FAITH**



**BUDGET STATEMENT
2021 - 2022**



'Ko e kelesi pe, 'oku tau mo'ui ai, 'i he'etau tui'

He ko e kelesi pē kuo mou mo 'ui mei ai, ko e me 'a 'i ho 'omou tui; 'io, na'e 'ikai meiate kimoutolu ia, ka ko e foaki mei he 'Otua. ('Efeso 2:8)

Ka ko e kelesi 'a e 'Otua kuo u hoko ai ki he me 'a kuo u hoko ki ai ni: pea ko 'ene kelesi ko ia na'e ngāue mai, na'e 'ikai ta'e'aonga ia; kaekehe, na'e hulu atu 'eku fakafitefita 'a 'iate kinautolu na kotoa: ka tala 'ehai ko au na'e fai, ka ko e kelesi 'a e 'Otua 'a ia na'a ma kau. (1 Kolinito 15:10)

Ko ia, ke tau 'unu 'unu atu mālohi ai ki he taloni 'o kelesi, ke tau ma'u meesi, mo tau ta'imālie ha kelesi ke tokoni mai. (Hepelu 4:16)

'By God's grace we are saved through faith'

For it is by grace you have been saved through faith, and this not from yourselves; it is the gift of God, (Ephesians 2:8)

But by the grace of God I am what I am, and His grace toward me did not prove vain; but I laboured even more than all of them, yet not I, but the grace of God with me. (1 Corinthians 15:10)

Let us then with confidence draw near to the throne of grace, that we may receive mercy and find grace to help in time of need. (Hebrews 4:16)



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1. FOREWORD

The FY 2022 budget is guided by the theme: 'By God's grace we are saved through faith'. The rationale behind this theme is a proclamation that only through God's grace that Tonga has survived the great adverse impact of the pandemic and is amongst the few countries in the globe that is COVID free.

Government will continue to prioritise prevention and protection against the COVID-19 pandemic, as the first and foremost priority considering the context of the Tongan economy including vulnerability and limited resources. Although Tonga is fortunate to remain COVID-19 free hitherto, Government needs to remain vigilant especially in a situation where the virus enters our shore. These include close monitoring of the border and the extension of quarantine to 21 days for repatriated passengers albeit the revolving cost implications and negative impacts on the economy.

The virus continues to have a profound impact on all societies and economies with many disruptions to everyday life. It is pleasing to note the availability of vaccines against COVID-19 which are slowly being rolled out across the world. This significant development is expected to gather momentum in 2021 and continue to strengthen further in 2022.

FY 2019 recorded an actual positive growth of 0.7 percent while FY 2020 is projected at negative 0.8 percent mainly due to the prolonged impacts of COVID-19. This is an improvement from the initial projection of negative 2.9 percent for FY 2020 which is attributed to the TC Gita and TC Harold reconstruction and other major infrastructure development activities. The medium term (FY 2022 to FY 2024) is projected at an average growth of 2.6 percent, reflecting the impacts of the Government Stimulus Package, TC Gita and TC Harold reconstruction activities and other major development projects scheduled to be implemented in 2022.

Government has approved a policy to commence preparatory works to establish a Land Transport Authority (LTA) to be responsible for road infrastructure maintenance and development in Tonga. A road maintenance fund has been created under the Road Act 2020 which will contribute to the operation of the LTA once it comes into existence.

On the fiscal side, an expected decline in revenue streams lead to a Budget deficit of \$42.8 million in FY 2022 with a preferred financing option from additional development grants. Government will continue to execute prudence in fiscal management and to prioritise activities over the medium term. In response, Government like other countries has proactively applied fiscal and monetary policy responses to offset some of the negative economic impacts of COVID-19.

The Government support through the \$60 million Economic and Social Stimulus Package rolled out in April 2020 has positively contributed to offset the negative impact of the pandemic. The disbursement of Stimulus funds has supported household income and consumption including vulnerable groups. Support was also provided to businesses including tourism, the hardest hit sector by the pandemic. Government is anticipating a second Economic and Social Stimulus Package to assist with economic recovery.

'By God's grace we are saved through faith'

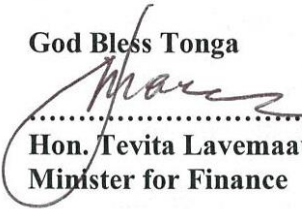
Going forward, the Government Budget FY 2022 – FY 2024 will build on the current effort and key measures to support medium-term economic recovery, rejuvenate private sector activity, protect and create jobs, and maintain overall macro-fiscal sustainability.

Government will continue to address the Government Priority Agenda (GPA) as approved by the current regime with health as the first priority in view of the COVID-19 pandemic. GPAs are categorized under three (3) thematic areas: **A. People Focus:** (i) Health; (ii) Illicit drugs and National Security; (iii) Education; **B. Economic Recovery:** (iv) Economic Development; and **C: Resilience:** (v) Infrastructure Development; (vi) Energy, Climate Change and Disaster Risk Reduction; and (vii) Public Sector Reform.

We encourage strong coordination and collaboration across Government with all relevant key stakeholders which is paramount for the successful implementation of Government priorities. We are indebted to the ongoing support by our development partners especially during this challenging time.

I wish to conclude with *Ephesians 2:8* “for it is by **grace** you have been **saved** through **faith**. It is not the result of your own efforts but God’s gift”.

God Bless Tonga


.....
Hon. Tevita Lavemaau
Minister for Finance



2. INTRODUCTION

The Budget theme for FY 2022, *'By God's grace we are saved through faith'*, will emphasize and support Government's plans and initiatives, to respond to the prolonged impacts of the COVID-19 pandemic and economic recovery with an aspiration that the current challenges will pass.

The areas of focus for the FY 2022 budget will continue to prioritize 'health', given the need to combat COVID-19. Other priority areas will still need to be addressed. These include continued efforts to recover growth in the economic sectors including agriculture, fisheries and tourism given their major contribution to economic growth. Other priority areas include infrastructure development; combatting illicit drugs; education; affordable energy sources; reducing the impact of climate change and disaster risks, as well as preserving the environment; and Government reforms including e-Government.

Ongoing partnership, strong coordination and collaboration is important across Government and key stakeholders, including the private sector, civil society organisations and development partners, to ensure effective and efficient implementation of Government priorities. This is critical in view of Government's limited financial capacity.

The budget statement has seven sections as follows.

Section 3 provides a broad summary of macroeconomic & fiscal outcomes and outlook for Tonga. The GFS classification of the FY 2022 budget is also covered in this section. This includes the main drivers and key assumptions for the GDP forecasting, government's debt position, Monetary Policy Actions, Social Development and Risks.

Section 4 introduces the TSDF II and Government Priority Agenda (FY 2022-2024) outlining the seven strategic areas of focus (highlights) and linkages to the Budget FY 2022;

Section 5 discusses the FY 2022 Budget Estimate at a Glance;

Section 6 provides the Government Budget by funding allocations for both recurrent and development estimates by ministry, by category, location and by funding sources;

Section 7 provides the conclusion; and

Sections 8-11 provide the Appendices with relevant detailed information and supporting tables for the budget as follows:

Annex I: Macroeconomic & Fiscal Outcomes and Outlook;

Annex II: Budget contribution to the Government Priority Agenda FY 2022;

Annex III: Development Aid Classification; and

Annex IV: Tropical Cyclones Gita and Harold Report.

Note:

Differences in numbers could be due to rounding up.

3. MACROECONOMIC AND FISCAL OUTCOMES AND OUTLOOK

3.1 Global and Regional Highlights

Global Highlights

The momentum of the global economic downturn, commencing in March 2020, is expected to be deeply felt this financial year. The situation is expected to improve in the medium term, taking into account the availability of vaccines. The IMF forecasts the global growth at -3.5 percent in FY 2020, the worst since the Global Financial Crisis. The outlook growth is projected to strengthen at 5.5 percent in FY 2021 and 4.2 percent in FY 2022. The global growth has been largely affected by the impacts of COVID-19.

The recent revised growth projections for FY 2021, compared to the initial projection in October 2020 has factored in the availability of vaccines and other policy support and initiatives in various countries.

The severe impact of COVID-19 in the global economy is largely reflected on vulnerable groups such as women, youth and those who are unemployed.

The revised forecast of 0.3 percentage in FY 2021 reflects the impacts of vaccines and policy support towards various sectors. The pace of recovery somehow varies across countries depending on the availability of vaccines and how responsive the public is, to the policy support in each country. At the same time, the rate of resurgence of the virus in various economies, new variants, and renewed lockdowns and restrictions, have a negative impact on the pace of economic activities.

Consequently, the global growth is expected to maintain a slower pace in the near-term. Challenges, uncertainty and risks remain skewed in the medium-term. Private consumption has rebounded and investments have picked up slowly in some countries except for China, in response to policy support. The recently approved policies in the United States and Japan, will have a larger impact in their economies, with ripple effects in other countries. However, these may dissipate, given the one-off nature of policy support.

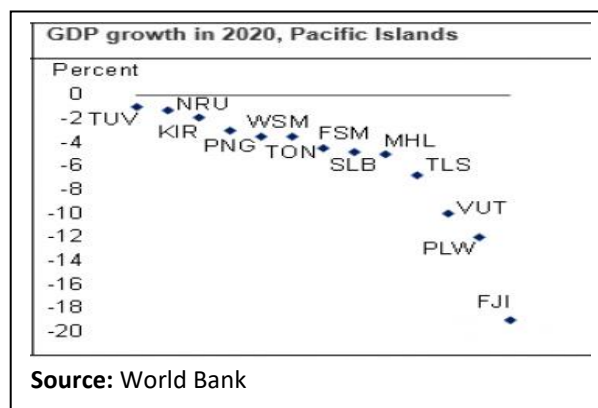
The strength of the recovery is projected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spill overs, and structural characteristics entering the crisis.

Regional Highlights

The Pacific region continues to struggle particularly the economies that are dependent on tourism. The growth in East Asia and Pacific (EAP) has slowed down to 0.9 percent in 2020 and 7.4 percent in 2021, around 3 percent below pre-pandemic projections. In Fiji and Cook Islands, pre-COVID tourism represented around 40 percent of GDP and 45 percent of total employment which continue to be suppressed by border restrictions.

	Estimate	Projections	
	2020	2021	2022
World Output	-3.5	5.5	4.2
Advanced Economies	-4.9	4.3	3.1
United States	-3.4	5.1	2.5
Euro Area	-7.2	4.2	3.6
Japan	-5.1	3.1	2.4
United Kingdom	-10	4.5	5
Other Advanced Economies	-2.5	3.6	3.1
Emerging Markets and Developing Economies	-2.4	6.3	5

Stagnation in regular tourism activity since March 2020 has severely curtailed tourism earnings. As a result, the current account deficit (excluding aircraft imports) is expected to deteriorate significantly to around 19 percent of the region's total GDP in FY 2021. Overall, the region's baseline scenario has indicated a sharp decline in economic activity in FY 2020 and expected to worsen off in FY 2021. The decline in economic activity has reduced job security and investments.



COVID-19 cases remain low in the region while others including Tonga still maintains a COVID free status which reflects a strong commitment by authorities.

Economic activities started to rebound after a sharp decline in March 2020 as alert levels started to ease up. The economic activities recovery for 2021 remains contingent due to the uncertainty in reopening of borders and the appetite for tourism activities. In light of the revolving uncertainties, economic growth for FY 2022 is anticipated to range between 0.5 percent and 8.0 percent. Inflation is gradually picking up after a significant drop in March 2020.

Remittances in the Pacific continued to hold up during COVID-19. Contributing factors include policy support in remitting countries and favourable movements in exchange rates. Demand for workers under the Seasonal workers scheme in Australia and New Zealand provided work opportunities for the Pacific. However, trade was affected reflecting the fall in exports to overseas market.

The fiscal spending in major trading partners has cushioned the economic impact of COVID-19 and has supported a faster recovery in the region. The region's expansionary fiscal policy has extended stimulus support towards vulnerable groups and business sector. At the same time, the pandemic has affected governments' revenue streams and debt to GDP ratio is expected to rise above the current benchmark in the medium-term.

Central Banks have maintained the same policy as uncertainty remains at large.

Neighbouring Countries

The Australian and New Zealand economies are expected to achieve real GDP growth of 5.7 percent and 3.5 percent respectively in FY 2022. New Zealand has outperformed most developed nations in its containment of the outbreak of COVID-19 which has enabled a faster economic recovery.

The recovery in the Australian economy has been sustained over recent months supported by better health outcomes and a further expansion in monetary and fiscal policy in the second half of FY 2020. As a result, GDP and employment are expected to reach their pre-pandemic levels over the course of 2021, around 6 -12 months earlier than previously expected. The unemployment rate is likely to have already peaked and is now expected to decline steadily to around 5.25 percent by mid-2023.

3.2 Domestic Economy and Outlook for Tonga

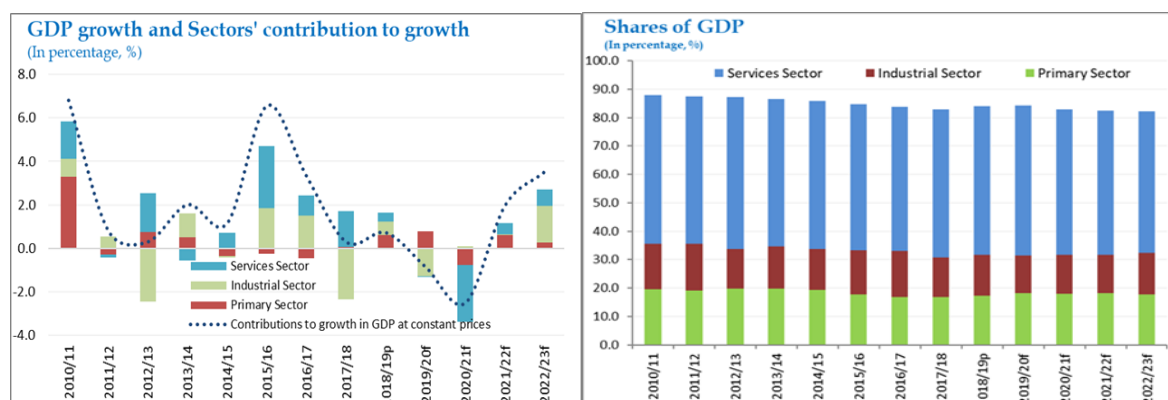
The domestic economy continues to be affected by the prolonged impacts of COVID-19 which has impacted key sectors of the economy. Concurrently, the economy continues to recuperate from the severe devastation of Tropical Cyclones (TC) GITA and TC Harold in April 2020. The reconstruction and recovery works are the main drivers of growth in the economy during a very challenging time.

Growth in the domestic economy declined from a positive growth of 0.7 percent recorded in FY 2019 to an estimated negative 0.8 percent in FY 2020, mainly due to the impacts of COVID-19. This is reflected in a significant drop in growth indicators in key economic sectors including Agriculture, Fisheries and Tourism. Consumer price also fell in FY 2020 to 0.2 percent from 4.0 percent on end period basis in the previous financial year. However, growth projections for FY 2021 and FY 2022 saw upward revisions.

The assumptions for the medium-term forecast are based on the following factors: -

- Continuous closure of border up to the end of the year 2021;
- Plans to re-open the border safely, initiating a travel bubble with NZ and Australia in the next 12 months;
- Global and regional economies including Tonga return to normalcy due to the availability of vaccines by mid-2022;
- Significant impact of the \$60 million Government Economic and Social Stimulus Package;
- Provide additional policy support for socio-economic recovery to help vulnerable households and businesses continuity in FY 2021 and 2022;
- Ongoing uncertainties in relation to the path of the pandemic, including the emerged of new virus;
- Construction and recovery works, following TC Gita and TC Harold;
- Tonga is the second most vulnerable country in the world to natural disasters, exacerbated by great exposure to climate change with limited capacity to finance its reconstruction and climate resilience;
- Higher and increasing dependence on external aid and remittances, due to decline in revenue streams;
- Updated forecasts, following the onset of COVID-19.

Figure 1: GDP Growth and share by sector



Sources: Tonga Statistics Department and MOF

Table 1: Real GDP Growth

	2019	2020 (e)	2021 (f)	2022(f)	2023(f)
	0.7	-0.8	-2.5	2.0	3.5

The economic outlook projects a fiscal deficit of \$11.2 million in FY 2021 and expects continuing fiscal deficit approximately \$18.8 million in FY 2022. This is mainly attributed to the prolonged negative impacts of COVID-19 which prompted the continuous support from Government through the Economic and Social Stimulus Package (ESSP). The revenue streams continue to decline in FY 2021 and FY 2022 and expect to be worsened if Tonga faces a worst-case scenario with COVID-19. Government expenditure is prioritized through prudent measures to control spending and to focus on health priorities and the medium-term recovery.

Main drivers of growth in FY 2021

This section discusses the economic performance under the key sectors of the economy with more focus on the prolonged impacts of COVID-19. The largest share of GDP is the Services (Tertiary) Sector¹ (51.3 percent) followed by Primary Sector² (17.9 percent) and Industrial (Secondary) Sector³ (13.7 percent).

Primary Sector: (17.9 percent to GDP)

The primary sector has shown resilience amidst a weakened economy due to the devastation impact of Covid-19. The sector is estimated to contract by 8.7 percent in FY 2021, from the strong growth of 4.5 percent in FY 2020 and 3.6 percent in FY 2019. The contraction is primarily due to the significant drop in the volume of squash exports, the adverse impacts of COVID-19 on borders and markets which affected the fishing industry especially the export of fresh fish.

Government support through the COVID-19 stimulus package has strengthened domestic production of root-crops and assists in maintaining some of the domestic fishing boats to operate during this hard time. The sector is expected to recover at an average growth rate of 2.5 percent in the medium term up to FY 2025.

- **Agriculture and Forestry:** The agriculture sub-sector contracted by 9.3 percent in FY 2021 as compared to the strong growth of 5 percent in FY 2020. The weakening in growth is attributed mainly to the huge decline in squash production by approximately 300 acres in comparison to the norms. The situation was further exacerbated by the impacts of COVID-19 on farmers' access to finance and market. The number of growers in the current financial year FY 2021 and FY 2022 is expected to decline significantly.

On the other hand, the Government Stimulus Package supported the sector through subsidization of ploughs and seedlings which positively contributed to domestic production of traditional root-crops.

The package also improved food security and export of access supplies to Tongan families abroad particularly in New Zealand and Australia.

¹ *Services or Tertiary Sector* comprised of 14 subsectors including Wholesale and Retail Trade; Transport and Storage; Accommodation & food services activities; Information & Communication; Financial & Insurance activities; Ownership dwellings; Other real estate activities; Professional, scientific & technical activities; Administrative & support service activities; Public administration & Defense; Education; Human health & social work activities; Arts, entertainment & recreation; and Other services activities subsectors.

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

³ *Industrial or Secondary Sector* comprised of 4 subsectors: Mining & Quarrying subsector; Manufacturing subsector; Electricity, water & waste subsector; and Construction subsector.

In the first six months of FY 2021, the export volume of root crops especially cassava increased by 12 percent points when compared to the same period in FY 2020.

The watermelon production was and is considered as the new niche product to offset the decline in the squash industry. However, the quarantine issue for watermelons hampered this effort. The pathway to the New Zealand market is therefore going through trials which will open the New Zealand market and possibly other neighbouring countries if the trial process is successful. The frequency and the intensity of natural disasters and climate change remain as the most significant challenge in the agricultural sub-sector.

The forecast for FY 2022 and medium term is optimistic at an average growth of 2.6 percent, despite the uncertainties in the current situation. Contributing factors include La Nina 2021 and improvement in the standard operating procedures (S.O.P) for watermelons. The positive outlook complements the current assistance through the stimulus package to develop the sub-sector.

- **Fisheries:** The fisheries sub-sector is one of the most affected sectors given the adverse impacts of COVID-19, mainly due to the ongoing closure of borders and the resultant challenges to export fresh fish to available markets. Growth is expected to decline by 3.8 percent in FY 2021 compared to 0.2 percent growth in FY 2020.

The ongoing support provided by the Government through the COVID-19 stimulus package and TC Harold has helped to maintain the fisheries sub-sector with projected average growth of 1.4 percent in the medium terms up to FY 2025.

Industrial Sector: (13.7 percent to GDP)

The industrial sector was the driving and mitigating factor of growth behind a very challenging year for the economy. The industrial sector provided the impetus for growth and employment, notwithstanding that both the primary and services sectors were severely impacted by COVID-19. The sector is estimated to rebound from the negative growth of 8.9 percent in FY 2020, to a positive growth of 0.6 percent in FY 2021.

The increase in the industrial sector growth was led by the construction sub-sectors, mining & quarrying, electricity and water. However, the manufacturing sub-sector was negatively impacted similar to other businesses due to the pandemic. The medium-term outlook is promising, with a positive growth forecast averaging at 4.5 percent, mainly attributed to the new projects and activities that are expected to occur and to be implemented in the outer years.

- **Construction sector:** The construction sub-sector becomes an important part of the Tongan economy during a very difficult year due to the unprecedented impacts of COVID-19. While almost all activities in the services and primary sectors contracted, the construction sub-sector was the key driver of growth and employment. The sector rebounded from a negative 18.7 percent in FY 2020 to an estimated positive growth of 4.2 percent in FY 2021. The negative growth estimated in FY 2020 reflects the completion of major construction projects including the Wind Generation System, Tongatapu Network Upgrade project, and Upgrading of the Teufaiva stadium.

The delay in the commencement of the Tonga High School Phase II project and the GITA reconstruction also contributed to the significant decline in growth. The turn-around to 4.2 percent growth in FY 2021 was driven by the Government in expediting of the TC Gita and TC Harold house reconstruction activities of which, 378 houses were built, amounting to over \$30 million.

The contract was shared amongst approximately sixty (60) local contractors, and provided employment opportunities to locals including those who lost their jobs due to the impacts of COVID-19 in other sectors.

Furthermore, the Government also extended coverage under its Road Maintenance project to include secondary roads, allocating \$15 million for the project. The Government also pushed through with the implementation of existing projects funded by development partners such as the National Early Warning System, Nuku'alofa Network Upgrade, Tonga Renewable Energy and Outer Islands Energy Renewable Project.

The outlook for the medium term is positive and dependent on development projects funded by Development Partners. The major projects in the pipeline include the Bridge from Fohaha to the Fanga'uta Lagoon, upgrade of the Queen Salote Wharf, Sports development related projects, such as the Tonga High School complex, which are expected to commence in late 2022.

The challenge is the capacity building of the locals and contractors to be able to benefit from these opportunities and to implement these projects efficiently and timely. The Government has developed the National Infrastructure Investment Plan II (NIIP II). It should guide the prioritisation of infrastructure development in Tonga and dialogues with Development Partners for financial support.

It should guide the prioritisation of infrastructure development in Tonga and dialogues with Development Partners for financial support.

Services Sector: (51.3 percent to GDP)

The services sector was severely affected by the impact of COVID-19. This resulted in further contraction in growth for FY 2021 to negative 4.5 percent from the negative growth of 2.5 percent in FY 2020. The contraction in the overall sector was attributed to deterioration in most of the services' sub-sectors. This was led by the steep drop in the tourism industry, wholesale and retail and the financial and insurance activities. There were few mitigating factors that helped to alleviate the impacts of the pandemic including the continuous flow of remittances from Tongan families abroad, the injection from Government's stimulus pay-outs to affected businesses and individuals, the assistance to the poor and vulnerable groups of the society, the reconstruction activities and the implementation of major development projects.

The sector had also absorbed those who were unemployed due to the closure of their businesses. The services sector is projected to grow in FY 2022 at a moderate rate of 1.4 percent and an average growth rate of 1.7 percent in the medium term up to FY 2025.

- ***Accommodation and food service activities:*** Tourism is the most affected sector in the economy reflecting the significant decline in growth to negative 20.8 percent in FY 2020 and forecasts a further contract to negative 40.8 percent in FY 2021.

These downward trends reflected the unprecedented crisis caused by COVID-19, resulting in closure of almost all the tourism sub-sectors: accommodations, travel agents and marine activities.

The continuous closure of our border and restriction in international travels resulted in no tourist arrival and fall in tourist receipts since March 2020. There were businesses who explored other alternatives in order to maintain operation through diversifying their services to other modes such as restaurants and catering. The Government's stimulus package provided some assistance over the last 18 months whilst at the same time, Government is also considering a recovery plan for a time when the border re-opens.

The outlook for FY 2022 and the medium term is positive with a growth forecast of 3.3 percent and an average growth of 4.4 percent over the next three years to FY 2024. The positive forecast is supported by the Government Economic and Social Stimulus Package, TC Harold Recovery assistance and the proposed development initiatives to restore the sector, particularly the tourism industry. This includes preparedness for when the border re-opens.

- **Wholesale & Retail:** The wholesale and retail sub sector has also felt the impact of COVID-19 as reflected in low level of confidence in the business sector, uncertainties and lower consumer demand. These all have negative impacts on consumption activities.

The wholesale and retail sub-sector are estimated to contract to negative 6.9 percent in FY 2021, compared to 1.3 percent growth in FY 2020. However, the level of remittances was surprisingly maintained in FY 2021. The total remittances at the end of December 2020 was \$398 million, 14 percent higher as compared to the rate in December 2019. This will help to sustain consumer spending in the economy in the short term.

In addition, the injection from the Government Stimulus Package and development projects have greatly supported the economy and helped to mitigate the impacts of COVID-19. The Reserve Bank's accommodative monetary policy stance also contributed to the sub-sector.

The forecast for FY 2022 was positive at 3.7 percent and an average growth of 3.8 percent in the medium term to FY 2024. The optimistic forecast has taken into account the efforts to build confidence and domestic demand in the business sector. These include sector policies developed as part of the Government recovery plan to revive the Tongan economy overall.

The downside risk is the degree of uncertainty on how long COVID-19 is prolonged and the scenario for emergence of a positive test case.

- **Transport & Storage:** The transportation sub-sector is strongly influenced by the significant fall in the number of passengers due to border closure and travel restrictions. The growth in the transportation sub-sector is projected to contract to negative 4.5 percent in FY 2021 from the negative 7.1 percent recorded in FY 2020. The sector is expected to be continuously affected due to the prolonged impacts of COVID-19.

- **Health Sector:** The Health sector was projected to grow at 9 percent in FY 2021 compared to the 4 percent growth in FY 2020. The increase in growth projection reflects Government efforts and investments on health focused on COVID-19 preparedness and prevention activities.

These include USD9.7 million National COVID-19 Vaccination Plan 2021-2022⁴, the provision of necessary personal protective gear (PPEs), laboratory equipment, CT scanner and medical supplies. Additionally, Government continues to prioritize funds towards implementation of the Ministry of Health's Pandemic Plan including repatriation of Tongans stranded overseas. The financial support from development partners are in tandem with Government efforts to those few countries who remain COVID-19 free, reflecting the joint efforts by Government and her key stakeholders to combat the COVID-19 pandemic.

- **Education Sector:** The growth in the education sub-sector was projected at negative 1.3 percent in FY 2020 and it is expected to further decline to a negative 8.2 percent in FY 2021. The decline in growth factored in the impacts of COVID-19, which affect almost all sectors of the economy including the education sub-sector.

These include closing of schools during the two (2) weeks lock-down in March 2020, disruption of normal school programs and activities to run trials of conducting classes online and on radio. Additionally, schools frequently cancelled classes due to cyclones, heavy rains, flooding and weather depressions. Government continues to support the sector as the priority sector for human development and allocates the largest share (15 percent) of the Government Budget to the Education sector. Government had also supported the sector through its Stimulus Package to assist Tongan students stranded overseas and settle one-term school fees for secondary school students.

The forecast for the sector in the medium term is positive, projecting an average growth of 2 percent. The positive outlook reflects ongoing works and planned initiatives to develop the sector. These works include drafting of the bill to establish a National University, review of the curriculum and expansion of Early Childhood Education (ECE) and Form 1 within primary schools. There are now 32 new Government ECEs and 33 schools with new Form 1 level established in 2021 with the intention to elevate the Government primary schools to Form 2 level.

3.3 Economic Impacts of COVID-19

To date, there have been 118 million recorded cases of COVID-19 across the world and 2.62 million recorded deaths, as of March 2021. The virus continues to have a profound impact on societies and economies everywhere with many disruptions to everyday life. In response to the virus, governments have generally imposed many public health restrictions on their citizens and have proactively used fiscal and monetary policy responses to offset some of the negative economic impacts of COVID-19.

In recent months, safe and effective vaccines against COVID-19 have been reportedly developed, and are slowly being rolled out across countries.

⁴ Refer to TON MOH National COVID-19 Vaccination Plan

This is a very positive development and rising expectations that the global economy will increasingly gather momentum in 2021 and it is anticipated to further strengthen in 2022.

The expectation of stronger growth has been reflected in recent increases in public commodity prices including the price of oil and higher equity prices. While a few countries in the Pacific region have remained COVID free as compared to other parts of the world, COVID-19 has nevertheless had a serious negative impact in the region. Tonga has been fortunate that to date, it has not recorded any cases of COVID-19. Other regional partners including Australia and New Zealand have had to fight many of the COVID-19 outbreaks.

The imposition of necessary public health measures across the Pacific has disrupted the normal movement of people between countries and had serious flow-on effects to trade and tourism, migration and education. Like other countries, Pacific Island governments have responded with economic stimulus packages and Central Banks have adopted accommodative monetary policies.

Disruptions to Tourism activity

The tourism receipts in Tonga were equivalent to around 15 percent of GDP, prior to COVID-19. Whilst not as large as highly tourism-dependent regional partners such as Fiji and Cook Islands, tourism is an important economic activity in Tonga. The necessary closure of the border to tourists, for public health reasons in March 2020, has effectively reduced the number of tourist arrivals to zero. In contrast, in 2019 between April and August, there was an average of 8,000 tourist arrivals per month (\$96 million if each spend at least \$1,000 in Tonga⁵ during his/her stay).

The cessation of international tourism has had a serious impact on businesses with strong connections to tourism such as the airport, hotels, resorts and operators of tourist activities. There have also been wider, second-round effects on other industries due to job losses in the tourism sector, falling incomes, the subsequent impacts on general household, business confidence, consumption and investment levels.

These impacts are reflected in the downward pressures on demand, the annual headline inflation in negative territory for the second half of 2020 before increasing slightly to 1.3 percent in January 2021. The demand for credit has remained largely subdued, reflecting in the overall weak economic environment. The total bank lending declined by 1.1 percent over 2020 with both household and business loans.

While tourism has been the sector most severely impacted by the border closure, there have been negative impacts for the fishing industry also with the disruption to regular air links and the temporary suspension of foreign fishing vessels from Tongan waters.

Positive Offsets and Economic Influences

While COVID-19 has had a serious negative impact on the Tongan economy, there have been several offsetting positive developments. Tonga is the world's largest recipient of remittances (as percentage of GDP).

⁵ 3 days food and accommodation if non-Tongan and more if returning resident or relative and friends

Initially, based on the experience of many developing countries during the Global Financial Crisis (GFC), there were expectations of a significant decline in remittances during the pandemic. However, remittances over the year to December 2020 rose by TOP\$ 49.9 million (14.3 percent) as the Tongan diaspora has prioritised supporting family back home in Tonga. The resilience of remittances to date has helped support aggregate demand and international reserves during the pandemic.

A number of Tongan businesses and households have adapted to the closure of the border by pivoting to domestically-focussed activities. This includes some tourism and hospitality businesses focussing on Tongan rather than international customers. In agriculture, there has been a shift towards root crops in terms of overall production levels. The excess in production has been made available for export. In part, the increase in root crop production was enabled by government initiatives including making available ploughing time and providing seedlings.

The construction sector has grown over FY 2021, reflected in the TC Gita and Harold reconstruction projects and other donor-funded infrastructure projects. Anecdotal reports suggest that the level of construction activity and other sectors, have provided some job opportunities for those who have lost jobs in tourism or have not been able to take up seasonal labour jobs in Australia and New Zealand, owing to border restrictions in those countries.

Government Economic and Social Stimulus Package

A very important positive offset to the negative impact of the pandemic was the Government's Stimulus Package, announced in April 2020 of TOP\$60 million with spending spread over FY 2020 and FY 2021. The package was funded from both the recurrent budget with significant and timely budget support received from development partners.

The Stimulus Package has funded a wide range of in-kind and cash assistance to Tongan households and businesses. For example, TOP\$5 million was allocated to the Employee Wage Support Scheme which consisted of a one-time wage support equivalent to TOP\$535 for employees working in businesses affected by COVID-19.

In recognising the impact of COVID-19 on the tourism sector, the government allocated TOP\$ 3 million as grants to the tourism sector. In addition, one-off payments of TOP\$200 were made to each beneficiary household of the Conditional Cash Transfers Program (CCT) and TOP\$100 payment was made to each recipient of the disability and elderlies grants. The Ministry of Education supported Tongan families with children enrolled in secondary school, by paying for school fees for Term 2 of 2020 at a cost of TOP\$0.997 million. In addition, TOP\$10.7 million was allocated directly by Development Partners to the Ministry of Health to ensure that necessary investments in public health infrastructure were made to protect Tonga from any COVID-19 outbreaks.

The disbursement of Stimulus funds has supported household incomes and consumption, provided assistance to businesses hardest hit by the pandemic including the tourism sector. The rapid disbursement of budget support by development partners has been an important contributor to a significant increase in foreign reserves by TOP\$222.4 million to TOP\$705.3 million, equivalent to 12 months of import cover. In turn, the increase in foreign reserves and the resilience in remittance levels has supported high levels of liquidity in the banking system.

Table 2: Development funds for COVID-19 related activities

Development Partners	Total Cash received to support COVID-19 Preparation	Total Cash Received for MOH	Total Inkind
Asian Development Bank	30,145,047.42	1,028,118.66	
World Bank	200,000.00	5,960,000.00	
New Zealand	5,313,180.00	1,482,000.00	
Australia	11,788,691.95	1,790,650.00	
PRC	459,630.00	152,486.00	
PRC local community		163,000.00	
Canada		130,238.00	
WHO			1,000,000.00
TOTAL	47,906,549.37	10,706,492.66	1,000,000.00

The government has received approximately \$59.6 million from its development partners to support its preparation for the global pandemic.

Approximately 80 percent (\$47.4 million) has funded the preparation works of 9 clusters through the Stimulus Package and other recovery and emergency activities.

A total of \$11.7 million (20 percent) was directly tagged to the MOH to assist with medical equipment and preparation of quarantine facilities should COVID-19 arrived.

ADB disbursed a total of \$31.1 million consisting of \$13.9 million from the Contingent Financing Facility, additional budget support of \$16 million, and \$1.0 million from the Asia Pacific Disaster Risk Facility.

The World Bank also offered approximately \$5.9 million from its Immediate Support Facility for COVID-19 to fund medical equipment and \$200,000 was also provided through the SET project to pay tuition fees for students with financial difficulties.

The Government of New Zealand (MFAT) provided \$6.7 million of which \$1.3 million assisted to fund the MOH response plan and the remaining balance was utilized for other clusters' responses plan.

The Government of Australia (DFAT) disbursed a total support package of \$13.4 million which includes \$10.7 million supported businesses, vulnerable groups, and non-government organizations.

The People's Republic of China and Chinese local communities also donated a total of \$0.7 million and Canada a total of \$0.13 million. A \$1.0 million worth of PPE was received from the WHO.

3.4 Fiscal Policy Framework

3.4.1 Overview of Fiscal Outlook (GFS)

Government Budget recorded a fiscal surplus in the past five years up to FY 2020, which has reflected Government had been prudent with its financial management. The fiscal surpluses were primarily based on strong revenue collection, strong policy reform actions which trigger increase in donor's budget support and an effective control of spending to remain within the fiscal anchors' targets.

In FY 2021, the budget preparation and financial management has been challenging due to the unprecedented impacts of COVID-19, which Government had to respond and implement appropriate policy measures. These measures were set to protect our shore, provide immediate relief support through the Economic and Social Stimulus Package to mitigate the impact on economic activities, support the affected businesses and individuals and to help poor households and vulnerable groups.

The budget outturn for FY 2021 has estimated a fiscal deficit of \$11.2 million (or 0.9 percent of GDP), a significant improvement, compared to the FY 2021 fiscal deficit of \$37.4 million (3.0 percent of GDP). The improvement is attributed to tight control of Government spending through rationalization and prioritization of expenditure to match the decline in revenue.

FY 2022 fiscal outlook has estimated a fiscal deficit of \$18.8 million (1.4 percent of GDP), which is much lower by \$18.6 million compared to the fiscal deficit in FY 2021. There is an estimated increase by 8.3 percent in tax and non-tax revenue in FY 2022 compared to the estimated outturn in FY 2021. The inflows of grants and development assistance from development partners continued to support Government in financing its Budget deficit and with Government's effort to address the impact of the COVID-19 pandemic.

The total expense in FY 2022 is estimated at \$515.9 million, an increase of 23.5 percent, compared to the FY 2021 estimated outturn of \$417.8 million.

The increase in expenses reflects Government's effort to maintain its core responsibilities and adequate provision for public health continuity and injected more resources to support the preparedness activities in relation to COVID-19 and to improve readiness in case the virus enters our shore. Additionally, Government granted financial support towards key sectors' recovery plans including public roads maintenance and key transport infrastructures. Net capital investment is estimated at \$75.2 million, an increase by 19.2 percent from the level spent in FY 2021.

The public financial management system is reasonably sound and the fiscal policy requires spending better as the Government relies on development partners for most capital investment projects and addressing its key capacity weaknesses would help the Government get best value for money.

A budget deficit is estimated for the outer years, taking into account that Government will focus resources on economic recovery.

Table 3: Government Financial Statistics (GFS) Summary Table (provisional)

	2018/19 Actual	2019/20 Actual	Budget Estimate 2020 /21	Estimated Outturn 2020 /21	Budget Estimate 2021/22	2022/23 Projection	2023/24 Projection
Revenue	485.2	494.4	512.9	469.7	572.2	496.7	472.0
Tax and Non-tax Revenue	272.7	280.8	265.0	256.6	277.8	279.8	281.4
Grants	212.5	213.7	247.9	213.1	294.4	216.8	190.6
Current	34.9	37.6	38.5	27.2	45.5	38.5	38.5
Capital	177.6	176.1	209.4	186.0	249.0	178.4	152.2
Expense	352.2	376.9	495.8	417.8	515.9	436.8	432.3
Compensation of employees	134.5	148.7	166.6	155.4	178.5	176.9	176.3
Use of goods and services	151.0	169.7	261.4	209.7	263.6	191.6	188.1
Interest	8.0	8.2	8.8	6.4	8.8	8.5	8.0
Subsidies	0.9	0.8	0.9	0.8	1.3	1.0	1.0
Grants	2.9	3.7	4.3	4.7	4.3	4.3	4.3
Social benefits	25.3	22.3	28.0	17.0	28.8	27.9	27.9
Other expense	29.6	23.4	25.8	23.8	30.6	26.8	26.8
Gross Operating Balance	132.9	117.5	17.2	51.8	56.3	59.8	39.7
Net Acquisition Of Nonfinancial Assets	96.1	57.8	54.5	63.1	75.2	95.1	74.2
Net Lending/Borrowing Requirement	36.8	59.7	-37.4	-11.2	-18.8	-35.2	-34.5
Net Acquisition Of Financial Assets And Liabilities (Financing)	(36.8)	(59.7)	37.4	11.2	18.8	35.2	34.5
Financial Assets	(23.4)	(61.5)	20.1	(4.8)	5.5	54.9	73.2
Domestic	(23.4)	(61.5)	20.1	(4.8)	5.5	54.9	73.2
Currency and deposits	(16.3)	(61.7)	19.8	(5.0)	5.8	55.2	73.5
Loans	(7.1)	0.2	0.7	(0.2)	(0.7)	(0.7)	(0.7)
Shares and other equity	-	-	(0.4)	0.4	0.4	0.4	0.4
Financial Liabilities	(13.4)	1.9	17.2	15.6	13.3	(19.6)	(38.7)
Domestic	0.0	12.9	20.9	0.1	0.9	0.9	8.9
Loans	15.2	31.9	35.9	15.1	15.9	15.9	15.9
Repayments	15.2	19.0	15.0	15.0	15.0	15.0	7.0
Foreign	(13.4)	(10.9)	(3.7)	15.5	12.4	(20.6)	(47.7)
Loans	-	-	19.0	22.6	30.0	-	-
Repayments	13.4	10.9	22.7	7.1	17.6	20.6	47.7

3.4.2 Medium-Term Fiscal Strategy

The fiscal policy environment has become more challenging as COVID-19 continued to linger on and revenue streams deteriorate. Government's fiscal policy is fundamental in managing available limited resources, supporting development activities and growth, upholding the quality of the public service deliveries, sustaining conducting environment for the private sector to grow, and maintaining consumer demand and business confidence. The challenge remains with the effort to maintain macro-economic stability to avoid detrimental effects to the Tongan economy, and focus more on the quality of the Government response (Tonga COVID-19 National Response Plan), the COVID-19 National Vaccination Plan and rapid economic recovery.

This section will outline Government fiscal policies for the Budget FY 2022 – FY2024:

Revenue Measures

Government has reviewed its revenue sources and strategies, considering the impact of COVID-19 on the revenue streams. Government has reviewed all the current exemptions as noted to be the major revenue loss component.

The objective of the review is to determine the viability of granting these exemptions. Government through the Ministry of Revenue and Customs (MORC) as the lead ministry will implement the following measures to improve revenue collection:

- MORC will continue to improve administration, enforcement and compliance and strengthening the existing mechanism to collect revenue arrears;
- Revenue Technical Committee comprising of MORC and MOF staff will continue to implement the recommendations of the IMF's report on exemptions;
- MDAs will carry out respective reviews of existing fees and charges/licenses, assisted by the Revenue Technical Committee;
- MORC to expedite the establishment of cash register project to ensure all sales link automatically to MORC's database;
- MORC to implement the revenue regulatory reforms in alignment with the PFTAC review;
- Revenue Policy Committee to coordinate and review all related revenue policy measures/matters.

Expenditure Measures

Government continues to refocus expenditure priorities towards 'health' and 'economic recovery' activities and will adopt the following expenditure measures:

- Focus on adequate capacity for the implementation of the COVID National Response, National Vaccination and Economic and Social Stimulus to be rapid and effective in smoothing up the negative impact and the economic recovery;
- Enforce the implementation of control measures to maintain the total wage bill within the fiscal threshold:
 - Continuous monitoring of new recruitments and consider only critical positions including consultancy recruitment and enforce compliance with recruitment procedures;
- Provision of adequate health expenditure (2 percent higher than FY 2021), education (1 percent higher than FY 2021) and transport infrastructures to support economic recovery and medium-term growth;
- Promote export of primary production (agriculture, fisheries, handicrafts) to increase to 5,000 tonnage in FY 2022 and increase processed goods to reduce imports volume by 5 percent to reduce the trade deficit and pressures on the value of the Tongan Pa'anga;
- Building up the Emergency Fund, disaster insurance including health contingency and strengthen disaster and climate financing systems to manage Tonga's vulnerabilities;
- Ensure the debt level remains within the threshold of 40 percent of GDP (IMF target);

- Enforce existing mechanism to control spending through:
 - Centralization of vehicle requests within Ministry of Finance; and
 - Monitoring the utilization of COVID-19 votes;
- Continue to explore options to establish an insurance mechanism to reduce costs of overseas referrals;
- Maintain the credibility of the budget by ensuring that all financial matters to be referred to Ministry of Finance for funding confirmation (including Cabinet Submissions) to avoid the accumulation of unbudgeted items.

FISCAL ANCHOR

Government will continue to adhere to the Public Finance Management Act (PFM) at all levels to ensure appropriate 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. The following table outlines the fiscal anchors and targets established to ensure Government maintains macro-economic stability.

Table 4: Fiscal Anchor and Position

	2018/19 Actual	2019/20 Actual	Budget Estimate 2020 /21	Estimated Outturn 2020 /21	Budget Estimate 2021/22	2022/23 Projection	2023/24 Projection
Compensation of Employees (\$m)	134.5	148.7	166.6	155.4	178.5	176.9	176.3
Wage Bill Fiscal Anchor <53%	49.3%	53.0%	62.9%	60.6%	64.3%	63.2%	62.7%
Total Domestic Revenue (\$m)	272.7	280.8	265.0	256.6	277.8	279.8	281.4
GDP nominal (\$m)	1,164.0	1,208.7	1,234.1	1,234.1	1,317.6	1,429.1	1,530.0
Domestic revenue GDP (>22% of GDP)	23.4%	23.2%	21.5%	20.8%	21.1%	19.6%	18.4%

Source: - MOF

Wage bill is the largest expenditure and has remained a key risk in terms of its potential to crowd out service delivery if it is not managed. Over the last 5 years, Government was able to manage the wage bill within the threshold of 53 percent of the total domestic revenue. However, in FY 2021 estimated outturn, the wage bill is now estimated at 60.6 percent which exceeds the threshold. The percentage increase in the wage bill anchor reflects the inclusion of vacancies and the decline in domestic revenue. The projection for FY 2022 is estimated at 64.3 percent and Ministry of Finance will continue to monitor the wage bill anchor going forward.

Domestic revenue as a percentage of GDP fiscal anchor is estimated at 21.1 percent for FY2022 (lower by 0.9 percent than the target of 22 percent of GDP). Domestic revenue is expected to decline by 3.2 percent at the end of the current FY 2021, reflecting the impact of the pandemic. The estimated revenue in FY 2022 is expected to increase by \$21.2 million from the estimated outturn FY 2021. The positive outlook has taken into account the continued effort to improve collection.

3.4.3 Debt Position

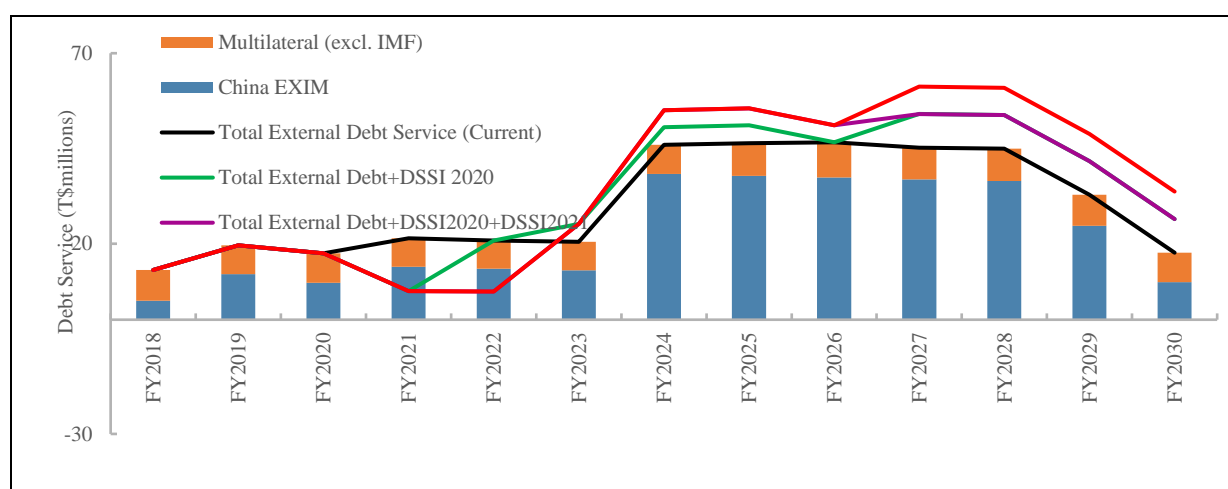
Tonga is currently recovering from and responding to two major shocks with COVID-19 severely impacting Tonga's tourism sector and Tropical Cyclone (TC) Harold affecting approximately 27 percent of the population. Government is focusing on ways to remain COVID-19 free despite the increasing number of countries being directly affected by this pandemic. Tonga continues to be highly exposed to foreign currency risks due to its vulnerability to external shocks resulting from climatic conditions and natural disasters and is still in high debt distress which qualifies Tonga to 100 percent grant assistance from ADB and World Bank.

Tonga has been approved to be part of the Debt Service Suspension Initiative (DSSI). That is, to reprofile all principal and interest payments that were due to Bilateral Creditors between May 1 and December 31, 2020 over 4 years, including a 1-year grace period. An extension of the DSSI duration to the end of June 2021 was approved in November 2020, which includes the payment due on 21st March, 2021. This reprofiling does not cover debt service to multilateral creditors (IDA, ADB and IFAD) but only debt service to bilateral creditors including loans from Peoples Republic of China.

The total amount suspended under the DSSI was approximately TOP\$14.6 million, which is available to assist with Tonga's preparedness and response to the COVID-19 pandemic. Tonga also requested a high concessional loan of USD\$9.4 million from the IMF's Rapid Credit Facility (RCF) to assist with financing the deficit budget for FY 2021. Figure 2 below illustrates Tonga's debt service projections up to FY 2030, taking into account the DSSI and RCF. Annex I Section 8.2 provides more details.

With the Technical Assistance from WB, Ministry of Finance is now finalizing the review of the Medium-Term Debt Strategy (MTDS), and aiming to submit and approved by Cabinet soonest, with the Government's alternative borrowing strategies which will help to meet Government's debt objectives. Approved strategy will be uploaded to Ministry's website and to be shared openly with the Development Partners.

Figure 2: Tonga's Debt Service Projections for the next 10 years

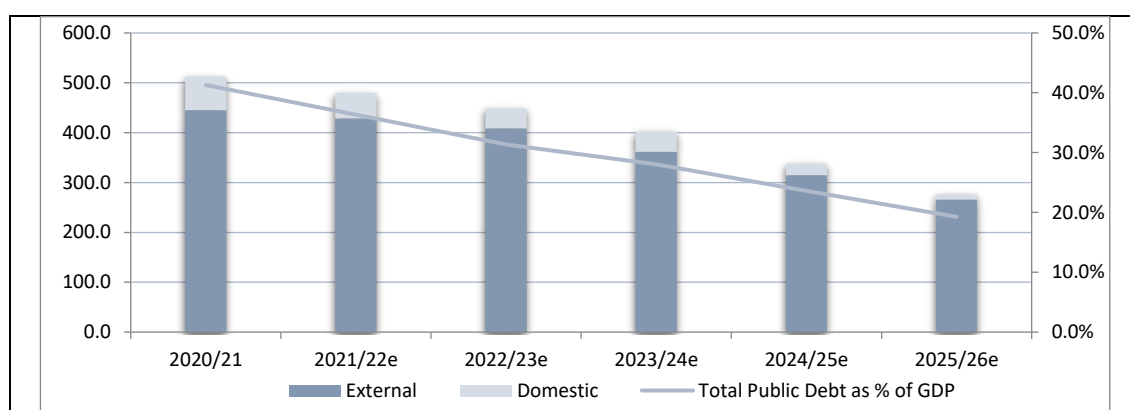


Debt service will spike in FY 2024, as a result of the commencement of the principal repayment for the Nuku'alofa Central Business District (CBD) to the EXIM Bank of China.

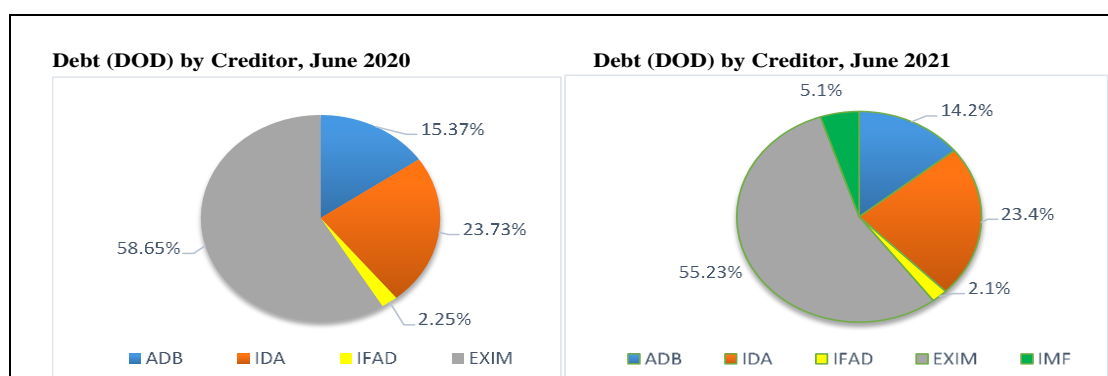
Total Public Debt (TPD) as at end June 2021

Total public debt, as at 30 June 2021, is estimated at \$514.4 million (41.5 percent of GDP), an increase of 5.3 percent from June 2020. This is mainly due to the new loan from the IMF and depreciation of the Tongan Pa'anga against the borrowing currencies.

As indicated in Figure 3, total Public Debt (TPD) is forecast to decrease over the medium-term due to the on-going repayment of WB and ADB loans.

Figure 3: Total Public Debt (\$m) FY 2021 – FY 2026 (including actual and projected)**External Debt**

Total external debt, as at 30 June 2021, is shown in Figure 4, estimated at \$447.1million⁶ (35.9 percent of GDP). Nearly two-third is owed to EXIM Bank. The main change from June 2020 is due to depreciation of the Pa'anga against some of the borrowing currencies and the new IMF loan.

Figure 4: External Disbursed Outstanding Debt (DOD) by Creditor**3.5 Monetary Policy Actions**

The COVID-19 pandemic continued to hamper economic developments worldwide including Tonga. Tonga has closed its border since March 2020 and is only allowing minimal travel activities for repatriation of Tongan residents from overseas. This has severely impacted the Tourism sector, aggregate demand and consumption.

⁶ Excludes future movement of exchange rates from June 2021

In addition to damages from recent cyclones, tourism businesses are struggling with the financial impacts. As a result, the Tongan economy is expected to contract in FY 2020 and FY 2021.

The financial system however, has continued to remain sound supported by adequate capital provisions and excess liquidity. The foreign reserve is very comfortable above the minimum 3 months of imports cover, and inflation has been relatively stable below the 5 percent reference rate. Nevertheless, the sharp downturn in the economy impacts credit growth, banks' profitability levels, debt serviceability and elevated financial sector risks.

The National Reserve Bank of Tonga (NRBT) maintained its accommodative monetary policy stance throughout the fiscal year FY 2021 to February 2021 to support economic growth while maintaining financial stability.

During this time the following monetary policy actions were implemented: -

1. Maintain the monetary policy rate at 0 percent (zero interest rate policy);
2. Maintain the minimum loans/deposit ratio of 80 percent;
3. Maintain the Statutory Reserve Deposit at 10 percent;
4. Maintain the inflation reference rate at 5 percent.

In recognition of the significant impacts of COVID-19 on the economy and the financial system, the NRBT also implemented the following monetary policy actions during the year:-

5. Monitor the commercial banks' liquidity support and adjust the SRD ratio if needed;
6. Monitor the commercial banks' capital ratio and adjust further if needed;
7. Ease the exchange control requirements when required;
8. Continue to facilitate the issue of Government Bonds;
9. Maintain clear channels of communication with the financial institutions for adequate preparedness;
10. Continue to be transparent and raise awareness of its monetary policy decisions through press releases to the public;
11. Closely monitor the impacts of the pandemic in the financial system for early detection of any signs of vulnerability;
12. Continue to ensure both commercial banks and non-bank financial institutions adheres to all Government declarations regarding COVID-19 in the workplace, while delivering essential financial services to the public;
13. Commercial banks are also assisting their customers who were affected by COVID-19 and TC Harold, on a case by case basis, and depending on individual customer's circumstances for the following measures:-
 - i. Repayment holidays of either interest payment only, or waiving both interest and principal repayments, for 3 months up to 6 months. Some banks offer up to 1 year moratoriums;
 - ii. Reduce interest rates and waiving of loan restructure fees and charges;
 - iii. Loan restructures.

In light of emerging risks brought by the pandemic, the NRBT also made progress for the implementation of the following monetary policy measures, in order to support and maintain a stable, sound and efficient financial system, conducive to macroeconomic stability and growth.

14. Enhance financial sector supervision through advanced risk assessments, stress-testing, and introducing new Prudential statements for prudent management of operational risks and cybersecurity risks in the banking operations;
15. Expanding the supervisory function of the NRBT in its scope of both offsite and onsite supervision to cover money laundering and terrorist financing;
16. Develop a National Payment System platform that is safe, efficient and sound for Tonga;
17. To address household indebtedness, protect consumers, and support access to financial services, the NRBT strengthens its supervision of non-bank financial institutions such as moneylenders (Moneylenders Act 2018), microfinance (SPBD), and foreign exchange dealers;
18. The Bill for licensing and supervising Credit Unions was also drafted and passed on to the Ministry of Finance. Meanwhile, the Fair Reporting of Credit Bill for credit bureaus is also being drafted, to assist in monitoring corporate and household indebtedness;
19. Progress is also made towards implementing the Insurance Bill 2018, while the Pension Fund Bill is currently with stakeholders for consultation;
20. Develop a National Know your Customer (KYC) framework to strengthen Anti-Money Laundering (AML)/Counter Terrorist Financing efforts;
21. Continue consultation with stakeholders for implementation of the Repatriation of export proceeds requirement of the Foreign Exchange Control (FEC) Act 2018. Annex I, section 8.3 provides more details).

3.6 Social Development

1. HEALTH (COVID-19)

The COVID-19 has infected more than 119 million people worldwide and claimed over 2.5 million lives to date. Although Tonga remains one of the few countries that are still COVID-19 free, frontline medical workers, nevertheless, are most at risk of potentially contracting the virus, should it enter our border. There is a considerable percentage of the population who are vulnerable to COVID-19 such as those with NCDs, the disabilities, and the elderlies.

Given that deployment of vaccines is reportedly considered the only way to return to normality, Government is thus finalizing its National Deployment and Vaccination Plan to access COVID-19 vaccines from the COVAX Facility. The first package of vaccine has arrived in Tonga in early April 2021. While there is attention to address COVID-19, continuing priority is accorded to NCDs.

2. JOB CREATION

The unemployment rate in Tonga was 16.4 percent as of 2016 which is anticipated to rise due to COVID-19 which has affected businesses and jobs. Based on a business survey, conducted by the TCCI and the ILO (in June 2020), it was estimated that about 62 percent of the local businesses reported have either planned to, or have actually dismissed workers due to COVID-19. In response, Government has implemented relief support to affected businesses and individuals through the COVID-19 Stimulus Package. Government also granted support towards families of Regional Seasonal Employment Tongan workers who were stranded abroad.

3. EDUCATION

Schools programs were disrupted by the COVID-19 pandemic. In response, Government developed an e-learning system, aimed at delivery of multimodal lessons for early childhood education, in the event that schools are required to close, due to the pandemic.

Quality education is an ongoing development priority. The partnership between Government and Development Partners is critical on relation to investing in quality education such as child development centers, skilled professional teachers and promoting equity.

4. SOCIAL PROTECTION

The struggle and financial hardship in individual households has increased in Tonga given the socio-economic crisis derived from COVID-19. The Government responded with the provision of one-off support to disadvantaged and vulnerable groups through the COVID-19 Stimulus Package. This support was additional to the existing monthly stipend that Government continues to provide to the elderlies and the disabilities.

5. ILLICIT DRUGS

The Illicit drugs-related problems remain as one of Tonga's major issues of concern. Government is committed to combat illicit drugs as reflected in one of its seven (7) key Priority Areas. Government continues to support this priority area through strengthening the Ministry of Police staffing capacity and providing sufficient resources to fund action-oriented activities to eradicate the issue of illicit drugs.

3.7 Risks

There are major potential risks to the Tongan economy over the medium term. These include the following:

Economic risks:

- The prolonged impacts of COVID-19 will continue to affect the hardship and living conditions of all Tongans, locally and abroad;
- The business activities and employments in key economic sectors: Tourism, Wholesale & Retail, Manufacturing, Fisheries, Banking institutions will continue to be affected. In consequence, threatening to close down 1 in 10 businesses in the formal sector and 2 in 10 under the informal sector and our community's largest employer⁷;
- The current fiscal position of government is at high risk and limited fiscal capacity to contain the negative impact of the pandemic. The tax revenue collection is maintained albeit signs of deterioration as the economy contracts;
- The continuous demand for government assistance from the business sector and vulnerable groups puts pressure on Governments sustainability and continued monetary's accommodation;
- The sustainability of support from development partners to finance the gap and Budget deficits;
- The current situation could bring potential drainage of government reserves.

⁷ ILO Tripartite Rapid Assessment on the Impact of COVID-19, on Businesses and Employment in Tonga, April 2021.

Natural disasters and climate change risks:

- Tonga is classified as the second most vulnerable country in the world to the impacts of natural disasters and climate change, thus posing risks on growth and development;
- The frequent occurrence and density of natural disasters in the future will have budget implications if the economy is not resilient. The recent experience from Tropical Cyclones: - Ian, Gita, Tino and Harold have caused major damages to key infrastructures such as tourist resorts, wharves and jetties, causeway and coastal roads.

Financial risk:

- The uncertainties of COVID-19 will continue to impact the Banks' willingness to lend, and the households' appetite to borrow, considering the risks in terms of ability to repay loans.

Health risk:

- NCD remains a high risk. Those with conditions including NCDs are most vulnerable to COVID-19.

Social Risks:

- Government provides assistance to vulnerable groups including elderlies, disabilities, stranded families overseas, fruit pickers and poor households. These will have fiscal implications on Government;
- Government needs to improve data and information on the most vulnerable households and groups to ensure targeted assistance to those most in need given resources are limited.

4. TSDF II: 2015-2025 AND GOVERNMENT PRIORITY AGENDA (GPA) 2022-2024

4.1 Tonga Strategic Development Framework II (TSDF II): 2015-2025

As Tonga's overarching development framework, the TSDF II 2015-2025 has witnessed critical milestones in its first five years of implementation. These milestones include mainstreaming of; the Sustainable Development Goals (SDGs), SIDS Accelerated Modalities of Action (S.A.M.O.A.) Pathway; and SENDAI, amongst many others. The mainstreaming process was a critical step, in the manifestation of the TSDF II national impact, "A more progressive Tonga supporting a higher quality of life for all", as the need to streamline, and understand, how these global and regional frameworks are relevant, to the context of Tonga. It continues to provide the overarching development framework, with its seven national outcomes, twenty-nine Organisational Outcomes, targets and indicators, which have reached critical milestones in its first five years of implementation.

One of the strengths of the TSDF II is the explicit depiction of a results framework, that supports good governance through a strengthened horizontal and vertical coherence, which provides a pathway for stakeholders' engagements.

This is critical to ensure coherent mainstreaming into sector plans, MDAs (Ministries, Departments and Agencies) corporate plans and the budgeting processes, through which allocation of financial resources, are closely linked to the TSDF II outcomes. At the same time, it provides the framework, within which the Government Priority Agenda (GPA) can be developed, to establish the priorities of the incumbent Government.

It is recognized that the mid-term review of the TSDF II has been underway, with the support of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). The results of the review will be reflected in the upcoming TSDF II Mid Term Review Report.

Tonga's Voluntary Report 2019 on the 2030 Agenda, and the Sustainable Development Goals 2020 Report provides an overview of Tonga's implementation efforts to date, highlighting areas of progress, and areas for further strengthening.

4.2 Government Priority Agenda (GPA) FY 2021 Highlights

This section provides a summary of key achievements and milestones under the respective Government Priority Action during FY 2021.

1. Health

Government accorded Health as the top and foremost priority, due to the COVID-19 pandemic. As such, most of the works and achievements under this priority area was focused on the preparation and protection works towards COVID-19. These are summarized below: -

- Establishment of the National Emergency Management Committee and National Task Force Emergency Response (COVID-19 and TC Harold), with a mandate to lead and coordinate, whole of Government relevant actions to address the impacts of COVID -19;
- Activation of the nine (9) Clusters, to implement the respective National Action Plan (NAP) relating to COVID-19;
- Approval of an Economic and Social Stimulus Package of \$60 million to fund the clusters National Action Plan including: -

- Allocation of the major share of the \$22.5 million to *Health under the WASH cluster* to assist with preparedness and protection (\$11.7 million), medical supplies (\$6 million) and implementation of the COVID-19 pandemic plan (\$4.8 million);
- Allocation of a total of \$22.4 million to the *Economic and Social cluster*, led by the Ministry of Finance to assist the business sector, provide employment support and help with community livelihood;
- Allocation of a total of \$3.8 million to the *Education cluster* for the implementation of their cluster plan including assistance to our students overseas;
- Allocation of a \$0.3 million to the *Emergency and Telecommunications cluster* for preparedness and response;
- Allocation of \$1 million towards the *Essential services Cluster* for border control and security;
- Allocation of \$3.2 million to the *Food security and livelihood Cluster* for food, security, preservation and supplements;
- Allocation of \$1.1 million to *Logistics and coordination* is to fund activities for first responders;
- Allocation of a total of \$1.3 million to the *Safety and Protection cluster*, to assist vulnerable groups, that is, a \$100 one-off payment and one-month advance for the elderly and disabilities as well as \$200 for each of 1000 households (SET) whose respective subsistence / income is under the poverty line;
- Allocation of \$4 million to the *Shelter cluster*, to assist with accommodation and facility upgrade to fulfill quarantine requirements.

2. Illicit Drugs and National Security

Government continued to prioritize illicit drugs in consideration of the continuous escalation in the number of drugs cases.

- Government approved the development of a National Security Policy (NSP) on 7th February, 2020. It also approved the activation of the National Security Committee of Cabinet (NSCC), to oversee the NSP development. The design process for the NSP is in progress and is to be continued in FY 2022. A Design Plan has been approved which formally establishes a Design Team to spear-head the development process. The Design Team is assisted remotely by the Pacific Security College of the Australian National University. PSC has approved assistance in engaging a local subject matter expert to directly assist the Design Team in the policy development process.
- The National Illicit Drugs Policy, approved by Cabinet in September 2019, remains the guiding framework for Government response. The Illicit Drugs Response Steering Committee met and approved for appointment of an Officials Level Working Group from key MDAs. An Action Plan is in first draft and the working group is tasked with consulting key stakeholders on the Plan, design of implementation plan and its actual roll-out.

- Completed Tonga Mutual Evaluation on Anti-money laundering and Counter Terrorist Financing (TF), by the Asia/ Pacific Group on Money Laundering (ML). This review provides an in-depth description and analysis of the country systems for preventing criminal abuse of the financial system based on the Financial Action Task Force on Money Laundering (FATF) recommendations. Since the strength of the global financial system is highly dependent on country systems, the review provides countries with opportunities to improve their institutions, legal framework and structure to combat ML and TF.

3. Education Development

Government continues to value Quality Education as one of the priority areas under human development. Like other key sectors of the economy, the sector also faced some challenges due to the impacts of the pandemic. The sector, however, managed to operate and deliver new initiatives as outline in Section 3.2.

4. Economic Development

- Provided support to affected businesses and employees to sustain operation;
- Support towards the key economic sectors including agriculture, fisheries and tourism:
 - Extend and expand the Government Development Loan (GDL) facility for another 5 years with further top up of \$5 million under the Tonga Development Bank (TDB);
 - Provided support through Micro-loan for women to support economic and income generating activities;
 - Fiscal and Monetary indicators;
 - Remittances continued to hold up at 41.3 percent of GDP in December 2020 (\$398 million) compared to 33.9 percent in December 2019 (\$348.1 million) and 37.6 percent in November 2020 (\$386.6 million);
 - Inflation rebounded from a negative to positive growth in December 2020 (0.3 percent), and 1.3 percent in January 2021;
 - Foreign Reserves rose significantly to \$705.3 million in January 2021, equivalent to 12.0 months of imports cover which far exceeds the threshold of 3 months cover.

5. Energy, Climate Change and Disaster Risk Reduction

Government prioritized Climate Change and Disaster Risk Reduction given Tonga's vulnerability to natural disaster and climate change.

The following developments reflect key policy decisions made to ensure that the nation remains resilient: -

- Development of the Disaster Risk Financing Strategy to guide financing options when a disaster occurs;
- Approval of the National Housing Policy as a guiding framework especially for reconstruction following disasters;
- Development of a Post Disaster Procurement Framework to expedite immediate response following a disaster;
- A total of \$10 million was received by Government from the Pacific Catastrophe Risk Insurance Company following TC Harold.

6. Infrastructure Development

Government prioritized infrastructure development as one of the driving factors of economic growth. The sector plays a key role in terms of sustaining the economy during a very challenging time. The following major infrastructure projects were implemented during the period under reference: -

- Approval of the Asset Management Policy Framework to guide the management of Government assets;
- Successful implementation of the Government Road Improvement Project, which assisted generation of job opportunities, to locals, and economic activities;
- Approval of two major infrastructure development projects: (i) Fanga'uta Lagoon Bridge, total-of USD\$55 million; and (ii) Upgrade of the Queen Salote Wharf, total-of USD\$45 million;
- Completion of the schools' reconstruction program in FY 2021, 307-individual houses under TC Gita (224 completed); (83 remain under construction), 71 under TC Harold reconstruction (4 completed); (67 remains under-construction);
- NEMO's Office (Ha'apai & Vava'u)
- Tonga Broadcasting Commission
- Tonga Police Training Facility

7. Public Sector Reform

Government continues to prioritize Public Sector reform in view of the importance that efficient and effective provision of its services to the public is maintained.

In its effort to achieve this objective, implementation of the following reforms was completed:

- *Emergency Development Policy Operation (EDPO)* – to fulfil the policy actions that triggered the disbursement of USD \$30 million from World Bank;
- *Joint Policy Reform Matrix (JPRM)* – to fulfil the policy actions that triggered the annual budget support from Development Partners;
- Established of the Public Financial Management Action Plan which is currently under implementation;
- Continue the e-government project.

4.3 Government Priority Agenda (GPA) 2022-2024

While the number of GPA remains the same, the COVID-19 pandemic is the first and foremost priority for Government to deal with, under Health. Government continues to undertake a National effort to combat COVID-19 from entering our shores and to avoid all measures leading to loss of lives.

The seven priority areas for the budget FY 2022 are categorized under three thematic areas;

1. **Peoples Focus** – this emphasizes the importance of giving attention to the people of Tonga in view of their basic needs and their health security due to COVID-19;
2. **Economic Recovery** – emphasis and efforts will be directed to recovery due to the downturn in the economy caused by the pandemic;

3. **Resilience** – it is important that resilience is streamlined into all economic, reconstructions and recovery activities.

As approved in the Budget Strategy FY 2022, the Government Priorities will be implemented through MDAs' Corporate Plans with the allocated resource envelope, both recurrent and development. The seven strategic priority areas for the Medium-Term, FY 2022–2024 are:

A. People Focus:

1. Health Development

Government will continue to accord health as the top priority, in light of the high degree of uncertainty regarding the impact of the pandemic. In addition to the implementation of ongoing plans and activities to ensure better health outcomes for all people of Tonga, Government will continue investments on public health infrastructure in preparation to manage any COVID-19 incursions and towards re-opening of the border. Government will therefore focus assistance on the following: -

- Investment on COVID-19 through supporting the implementation of the Ministry of Health National Action Plan on emergency response to the pandemic:
 - *Phase 1: Preparedness and Prevention (high priority);*
 - *Phase 2: Virus detected early response (medium-term priority);*
 - *Phase 3: Containment (medium-term priority);*
 - *Phase 4: Outbreak (long-term priority);*
 - Priorities for Health Infrastructure includes: -
 - Vava'u Hospital;
 - renovation of the Queen Salote Nursing dormitory as a quarantine facility;
 - construction of a national laboratory;
 - Pharmacy warehouse
 - Developing an appropriate vaccine strategy, including arrangements to have in place a proper storage facility, and provision of training for relevant staff.
- Ongoing provision of other health programs and activities: -
 - Promoting healthy lifestyles and preventative measures to address Non-Communicable Diseases (NCD);
 - Increasing focus to prevent the spread of Communicable Diseases (CD) such as COVID-19 and others;
 - Increasing focus to improve Universal Health Coverage and services such as the endeavor for 100 percent immunization as a preventative measure;
 - Improving public service delivery with better health information systems in place through the E-Health Project;
 - Progressing the works to design a health insurance scheme to minimize costs of referral;
 - Providing health insurance coverage for all staff in Tonga's overseas missions, as
 - mandatory, considering the COVID-19 pandemic.

- Expand Social Protection (Vulnerable Groups)
Government provides support to vulnerable groups including elderlies, disabilities, women and children. Going forward, Government will continue assistance towards:
 - Building the social protection system to help better target assistance to those affected;
 - Providing the existing support (monthly stipend) for elderlies and disability groups, children in poor families through the SET project and support towards women groups, through grants and micro-credit loan scheme;
 - Providing one-off grants to the vulnerable groups and poor households, considering the prolonged impacts of COVID-19;
 - Expand caretaker services to the outer islands;
 - Providing New Landfill in Vava'u, considering the current landfill is almost at full capacity.

2. *Illicit Drugs and National Security*

The *Illicit drugs* issue in Tonga continues to be a priority which requires a whole of country approach. The National Illicit Drugs Policy approved by Cabinet in 2019, remains the guiding framework for Government response. The focus has been largely on '*supply reduction*' where Tonga Police has played a lead role in enforcement and prevention. Government, through its National Illicit Drugs Steering Committee will expand focus towards strategies that would impact on '*harm reduction*' and '*demand reduction*'. Additional resources will be provided to fund the action plan for illicit drugs.

National Security is essential to defending the Kingdom's Sovereignty, which encompasses our constitutional values, ideals of justice, economic stability, as well as the well-being and lives of our people. *Security* has expanded to include non-traditional security issues such as poverty, health (COVID-19), food, water, education, youth, and climate change.

These have either a direct or indirect impact on the well-being of our citizens as reflected in the *Boe Declaration*⁸. Going forward, Government will support the initiative to develop the first National Security Strategy for Tonga. To ensure the safety and security of all citizens, Government will prioritize assistance in the following areas: -

✓ ***National Security Policy (NSP):***

- Support the re-establishment of the Cabinet National Security Council (NSC);
- Support the Prime Minister's Office and Tonga Police with special reporting to the NSC as joint agencies leading in the development of a National Security Strategy;
- Stronger collaboration with relevant regional and global organizations.

✓ ***Tonga National Illicit Drugs Policy (TNIDP):***

- Continue to implement the TNIDP Action Plan;
- Continue to enhance law enforcement capability and capacity;
- Support MDAs' related programs including Health, Attorney General's Office, Customs, and Prisons that link to activities under the Action Plan;

⁸ Pacific Islands Forum Secretariat, '*Boe Declaration Action Plan*', PIFS, 2019.

- Support the formalization and empowerment of NGOs, CSOs, schools, churches and community groups under a public engagement forum to ensure access to and participation in implementing and monitoring of the NIDP;
- Support towards criminal deportees.

3. *Quality Education*

Government continues to value the provision of quality education guided by the mission of the Ministry to provide and sustain lifelong relevant and quality education for the development of Tonga and its people. Government will therefore ensure the achievement of the set development targets and objectives for the sector through: -

- Implementing key strategic policy areas under the *Education Policy Framework*:
 - review of the whole educational system;
 - review of the Ministry of Education's Strategic Plan and Curriculum;
 - review of financing options and financial sustainability; and
 - e-learning
- Continuing the reviews of school fees, with a view to recover the costs of operation, to pilot in one of the Government's schools;
- Completing the design of the safer school project to be effective in FY 2022;
- Providing support towards the implementation of the approved technical and vocational policy framework through the Skills Employment Tonga (SET) project;
- Continuing support towards early childhood education (ECEs), noting the establishment of 32 new ECEs in 2021;
- Continuing support towards the implementation of two (2) new initiatives on:
 - (i) Setting up of 33 new Form 1 (Class 7) in selected primary schools in 2021, which they will elevate to Form 2 (Class 8) in 2022, following the phased out of *Secondary Entrance Examination (SEE)* in 2020;
 - (ii) Completing the draft bill for setting up of Tonga's first National University. The drafting of the bill is near completion.

B. *Economic Recovery:*

4. *Economic Development*

Government will continue to prioritise Economic Development with a focus on Economic Recovery in view of the economic downturn cause by COVID -19. This includes targeted recovery plans and activities to revive the economy, support the wellbeing and living standards of all citizens during this unprecedented time. Although Tonga has no confirmed cases of COVID-19 so far, economic activities have been hindered by negative spill-overs from the impact of the pandemic, and pre-cautionary measures to protect our borders. In view of the current economic situation and degree of uncertainty, government will focus support and assistance on the following:

i. Opening of the Border – a prerequisite to recovery

- Facilitate safe opening of the border through a more coordinated approach between all relevant stakeholders including the key sectors of the economy: tourism, agriculture and fisheries;

- Apply appropriate policy and safety measures, and ensure compliance as mandatory towards: -
 - Lifting travel restrictions;
 - Opening travel bubble with NZ and Australia (next 12 months);
 - Preparing stage, both health and safety readiness, when the border re-opens;
 - Restoring travellers' confidence, through targeting the markets, and communication;
- Support the implementation of sector recovery plans, for the key economic sectors: - tourism, agriculture and fisheries.

ii. Private Sector Development

Government will support the plans to rejuvenate private sector development. A stronger business climate and private sector would help broaden the tax base and increase fiscal resilience. It will also help to expand the financial sector and government's capacity to manage debts. Additionally, it will allow Tonga to benefit from Pacer Plus by attracting investments that can promote Tonga's export share and improve climate resilience. Government will focus assistance on the following:

- Supporting the implementation of the COVID-19 Business Recovery Assistance Program (Phase 3) Proposal. The focus is on three areas to be implemented in three phases up to June 2022:
 - i. Continuity (Business Assistance)**
 - ii. New Initiatives** such as: Loan finance flexibilities, Business partnership, Boost Exports, manufacturing and implementation;
 - iii. Implementation Support** (support staff, modernized logistics, contingency);
 - Finalize Foreign Investment Regulations (2021);
 - Establishing and implementing a coherent investment policy to promote foreign investment and private sector development;
 - Streamlining costs of doing business through regulatory reforms;
 - Improving the operation of the land market and regulatory regime;
 - Providing capacity building for Local Manufacturing Businesses and Micro MSMEs in the Informal Sector as vital for inclusive economic recovery;
 - Formalizing informal sector businesses;
 - Providing Targeted Business Development Support for Local Businesses and Micro MSMEs businesses;
 - Establish the Export Marketing Board to continue providing Export Development Support to Private Exporter Businesses (Local Freight Subsidy Scheme); supply chain & export development assistance for Small Farm Holders and Producers in the Informal Sector; and financial support towards the construction of Pack Houses to facilitate exports;
 - Providing Export Development Support to Private Exporter Businesses (Local Freight Subsidy Scheme);
 - Providing Supply Chain & Export Development support for Small Farm Holders and Producers in the Informal Sector;

- Providing financial support towards the construction of Pack Houses to facilitate exports;
- Considering relevant wage support, credit guarantees, tax relief and interest subsidies, bearing in mind the implications on revenue;
- Building back better through linking credit access and management of skills development including the establishment of credit union;
- Establishing of Co-operatives Society in communities;
- Implementation of the new International Arbitration Act 2020.

iii. *Further Economic and Social Stimulus (Phase 3)*

Government will provide stimulus support, targeting the most affected businesses and individuals, vulnerable groups, and poor households. This is in view of the associated impacts of COVID-19 on the economy with the intention to keep them afloat. The further stimulus package will take into account the lessons learnt from previous support.

iv. *Continued investment in the development and recovery of Agriculture, Fisheries and Tourism:*

❖ ***Agriculture***: Government will continue to support the following areas: -

- Continue the current programs to sustain food security and economic activities in the short term:
 - Subsidize the cost of production, ploughing and seedlings;
 - Process and package of Root crops (taro, yam and tapioca);
 - Subsidize the cost of production, ploughing and seedlings;
 - Process and package of Root crops (taro, yam and tapioca);
 - Establishing a Milling Operation in Tonga – for wheat, rice, and root crops for flour and livestock feeds project.
- Promote the diversification of other niche production that is from squash to watermelon;
- Improve compliance with the Standard Operating Procedure (SOP);
- Develop the necessary infrastructure to support exports including Quarantine facilities and safety gear;
- Explore options for markets of 'kava';
- Improve the process of planting and harvest of 'vanilla';
- Support institutional strengthening to improve communication and coordination amongst key stakeholders;
- Support implementation of the Food Cluster Action Plan initiatives including coconut replanting scheme, sandalwood regulation public awareness campaign, forestry inventory survey, and food laboratory analysis;
- Continuous support towards the Government Road Improvement Project which extends to cover agricultural and community roads throughout Tonga and the outer islands.

❖ **Fisheries:** Government will continue support through subsidizing the price of fish to help fishermen and citizens to promote domestic consumption and marketing of fish. Moreover, grants were also provided to repair vessels damaged by TC Harold. Ongoing planned activities to develop the sector including reviews of the existing policies and processes, Fisheries Act/Regulations (foreign vessels), providing extension services and the phased implementation of the Tonga Fish Pathway Project (TFPP). The TFPP project seeks to: -

- Expand the implementation of Special Management Areas (SMAs);
- Further develop aquaculture for farming of pearls, giant clams, sea cucumber, tilapia, mud crab, seaweed and prawns;
 - Develop the planning and management policy for deep-water fisheries—with particular reference to Tuna and Snapper;
 - Develop new fisheries options such as squid and mini-longline.

❖ **Tourism:** Preliminary work has been established to initiate a recovery strategy for the sector, given the current situation and experience caused by the pandemic. Government will support sector plans and initiatives including the following focus areas:

- Provide Stimulus grant support to affected tourism business operators and individuals;
- Consider travel bubble option with New Zealand & Australia in the next 12 months;
- Ensure health and safety readiness in tourism accommodation/facilities when the border re-opens;
- Build confidence in the sector, through marketing and communications;
- Provide access to finance including Government loan scheme to restore, rebuild and upgrade tourism businesses;
- Rebuild tourism infrastructure especially those damaged by TC Harold;
- Support towards key highly prospective infrastructure projects fundamental to the recovery and reconstruction of the tourism sector. These include the: (i) Government roads improvement project which encompasses roads leading to tourism sites/ resorts and (ii) major upgrade and extension of ports for Tongatapu and Vava'u.

- ***Restructure of Government Development Loan (GDL), Gita Loan Recovery Fund (GLRF) and Micro-loans for Women (MLW):***

Government is currently managing both the GLRF and MLW. GLRF was initiated following TC Gita to support income generating activities in the key economic sectors: Fishing, Agriculture, Manufacturing and others. The MLW also provides easy access for women's groups and individuals as start-up funds to assist women mainly in Agriculture and Manufacturing sectors. The specific areas in the Agricultural sector includes planting of vegetables, paper mulberry, pandanus; and establishing fruit vendors and at the same time to support tourism related activities in the Manufacturing sector such as the production or sales of handicrafts, tapa, and mats.

- v. ***Review the structure of the Public Enterprises (PEs):*** The critical review of the Public Enterprises Policy is currently an on-going process to ensure PEs meet Government objectives.
- vi. ***Review contracts/agreements:*** Progress has been made in reviewing some of the current agreements/contracts aimed to ensure the achievement of Government objectives including compliance with designated obligations and avoidance of unnecessary costs to Government. These include the existing agreements/contracts with the Tonga Forest and Tanoa International hotel.
 - ***Tonga Forest Products Ltd. & Tanoa International Dateline Hotel:*** Government will engage a technical assistance to review the contract and agreement to determine the viability of the above initiatives and to determine way forward.
- vii. ***Creating job opportunities:*** an ongoing effort is made to create new opportunities through the Skills and Employment Project (SET) pathway which supports vocational training. These areas include butchery, care givers, tourism, information technology and there is also a plan to open opportunities to local and international markets including labor schemes for these areas in Australia, New Zealand and the region. DFAT is also supporting this area.

C. Resilience:

5. Resilience Sustainable Recovery

- ***Energy, Climate change and Disaster Risk Reduction***
Energy, climate change and our vulnerability and exposure to natural disasters remains a critical priority. In considering our region's high degree of vulnerability to disaster and climate change, it is paramount to have all the necessary institutional and capacity set up in place aiming at building a resilient economy to withstand natural disasters and climate change effects. Government will give priority to the following: -
 - Implement the Disaster Risk Financing Strategy with technical assistance funded by the World Bank;
 - Implement the approved National Public Housing Policy to cater for the less fortunate citizens;
 - Design of the 'Safer School' Program funded by World Bank under its IDA19 investment;
 - Continue to enforce compliance with the Building codes for all new construction to enhance resilience;
 - Implement the approved Post Disaster Framework Contracts supported by technical assistance funded by development partners;
 - Review of the Outer Islands Solar Electrification Society (OISES);
 - Review of the Climate Change Trust Fund (CCTF); and
 - Ongoing Implementation of Energy Projects (TREP, OIREP, NNUP, Wind-power and other Renewable Energy projects).

- ***Investment to rebuild back better***
 - Working to build a more resilient recovery through strengthening policy, compliance and government implementation capacities.

6. Infrastructure development

Government prioritizes the development of critical infrastructure, considering its important contribution to economic growth and poverty alleviation. Adequate and quality infrastructure facilitates people's access to basic resources and improve overall standard of living. Government will focus assistance and support on the following:

- ***Road maintenance and development - community access, agricultural & fisheries, tourism and coastal roads***

Government will continue implementation of the Road Improvement project including community agricultural roads improvement with an increased scope to expand to fisheries roads, tourism roads and coastal roads.

This project has been initiated upon the basis that good roads is a necessity for community access to agricultural roads to facilitate farmers' access and transportation of their produce to markets.

Also, to provide access roads to fishermen as well as access to tourist sites. Government will seek to complete the implementation stage notwithstanding challenging and other competing priorities.

- ***Extension of Queen Salote Wharf***

The Asian Development Bank approved in December 2020 a Grant totaling USD \$45million for the extension of Queen Salote Wharf (Nuku'alofa Port Upgrading Project). The preparation was carried out under the transport facility with the scope of services divided into 3 phases: Phase 1 - detailed engineering design; Phase 2 - updating of due diligence reports; and Phase 3 - procurement support. The project is to be implemented over a duration of 2 - 4 years, commencing in FY 2021.

- ***Fanga'uta Lagoon Bridge***

The objective is to facilitate easier transport access by building a new 2-lane bridge of approximately 700 meters length, with 4.5 kilometers of approach roads across the Fanga'uta Lagoon linking Nuku'alofa to Southern Tongatapu. The detailed design is on-going. The project is co-funded by the Asian Development Bank and the Australia Infrastructure Financing Facility Programme (AIFFP) with a total estimated cost of USD\$55 million. Effort is underway to identify further co-financing for the project which is scheduled to commence in FY 2022.

- ***Long-term Infrastructure Development***

Government has prioritized a list of future long-term infrastructure development projects to be implemented over the next 12 – 15 years through a joint People Public Private Partnership (PPPP) arrangement. These projects include: -

Other avenues include exploring existing schemes in other countries such as Singapore. The intension is to ensure resilient and sustainable management of Government infrastructure and assets.

- ***Subsidies (Air, Sea Transports, electricity exemptions)***

Government supports the development of the infrastructure sector through subsidies to support costs of air and sea transport to the outer islands. That include:

- Government is currently subsidizing sea transport to Ha'apai, 'Eua and the Niuas;
- Government is providing subsidies towards the maintenance of streetlights in Tongatapu and the outer islands;

While the above subsidies are to continue in FY 2022, a review of all Government subsidies will be undertaken, to determine whether objectives and purpose are still relevant, and to determine the impacts of subsidies on the various sectors, in contributing to overall development.

- ***Draft National Infrastructure Investment Plan (NIIP II) report***

A draft report of the NIIP III review is now circulated for comments by relevant stakeholders, prior to its finalization. NIIP will continue to guide future Government infrastructure development initiatives.

7. Public Sector Reform

With an ongoing effort to improve Government's efficiency in executing services to the public, Government prioritizes reforms in the public sector, which include:

- ✓ ***Policy reforms:*** implementing the Government reform program and initiatives, through the Joint Policy Reform Matrix (JPRM), which focuses on three (3) thematic areas that trigger Budget Support:
 - Strengthening of the public sector systems and public finances;
 - Enhancing resilience to the effects of climate change and natural hazards;
 - Improving livelihoods, labour market regulations and digital development.

- ✓ ***Implementing the Public Expenditure and Financial Accountability (PEFA) Assessment and the PFM Action Plan.***

The PEFA assessment measures the performance of public financial management (PFM) systems using an objective, internationally-recognized standard. The latest Tonga PEFA assessment was carried out on 11-22 November 2019. While good ratings were received in many of the PEFA's pillars, the assessment also reflected on key weaknesses in PFM, and the Government is setting out to conduct the necessary actions to address those gaps. As such, Technical Assistance has resumed and is responsible for the coordination of the implementation of the PFM Action Plan.

✓ ***Structural reforms:***

Government will consider carrying out proposed restructuring of MDAs to ensure better delivery of services as part of Government's overall reform program. These proposed restructure reforms include:

- ***e-Government function*** - The Tonga Digital Government Support Project (TDGSP) has recruited and mobilized staff for the Project Management Unit. In October 2020, an introductory session was carried out between the Ministry of Finance and with the E-governance Academy Firm from Estonia and the Macmillan Keck Firm from Britain, to implement the Government's Cybersecurity programme, and develop the government enterprise architect, legal and regulatory framework for Digital government, including Civil Registration and national ID Systems.
- ✓ The Ministry of Finance will continue effort to secure funds towards ***installing a new Government's Integrated Financial Management Information System (IFMIS)*** to improve its financial service delivery and contribution towards digitization of the whole of Government.

5. BUDGET ESTIMATE AT A GLANCE FY 2022

The total budget for FY 2022 is \$625.1 million of which \$376.1 million is recurrent (60 percent) and \$249 million development (40 percent). Of the total budget, 80 percent or \$499.2 million is the appropriated cash, while 20 percent or \$125.9 million is in-kind.

Table 5: Total Budget Estimate for FY 2022 (T\$m)

Source of Funding	Budget Estimate 2021/22	% of Total Budget 2021/22
Recurrent	376.16	60
Development	248.95	40
Cash	123.06	49
In-kind	125.89	51
Grand Total	625.11	100

Source: MOF

The total budget is broadly allocated in terms of the seven strategic focus areas as outlined in *Section 5.1* below. Major initiatives under the seven strategic focus areas are ongoing work by MDAs under their respective operations.

5.1 Summary of Government Budget by Priority Areas

Table 6 illustrates the contribution of both the Recurrent Budget (\$369.4 million) and Development Budget (\$248.9 million) to each of the government priority areas, noting the following highlights:

- In terms of the recurrent budget alone, the allocations for majority of the priority areas show a slight increase from FY 2021 to FY 2022, to continue supporting COVID-19 response activities and government projects;
- The COVID-19 negative impacts on domestic revenue continues to challenge government's affordability level. This means that each ministry is expected to live within the resources available including reprioritizing and using their existing allocations more effectively and efficiently;
- A total of \$59.6 million from development partners is allocated for COVID-19 related activities;
- Despite that the largest share in both years remain as strengthening Public Sector System Reform from the recurrent budget, more than half or between \$80 million - \$90 million represents debt management and the Government's General Fund (GGF).

Table 6: Summary of Government Budget by Priority Areas

Government Priority Areas FY 2020/21 - FY2023/24	Approved Budget 2020/21			Budget Estimate 2021/22			Budget Estimate 2020/21	Budget Estimate 2021/22	Variance
	Recurrent	Development	Total	Recurrent	Development	Total			
	\$m	\$m		\$m	\$m		%	%	
Health Development	58.46	65.54	124	47.07	70.45	117.52	21	19	-6.48
<i>Covid-19</i>	15.23	52.54	67.77	3.04	43.60	46.64	11	8	-21.13
<i>Universal Health Coverage, UHC</i>	43.23	13.00	56.23	44.03	26.85	70.88	10	11	+14.65
Illicit Drugs and National Security	29.32	14.00	43.32	32.49	8.79	41.28	7	7	-2.04
Economic Development and Recovery	24.77	12.40	37.17	29.44	28.43	57.87	6	9	+20.7
Education Development	55.6	19.00	74.60	56.25	18.39	74.64	13	12	+0.04
Infrastructure Development (with priority on road improvements)	31.68	22.30	53.98	19.18	33.87	53.05	9	9	-0.93
Public Sector Reform (including E-Government)	177.64	21.46	199.10	189.06	4.61	193.67	34	30	-5.43
Resilient and Sustainable Recovery	2.58	54.85	57.43	2.67	84.41	87.08	10	14	+29.65
Grand Total	380.05	209.55	589.60	376.16	248.95	625.11	100	100	+35.51

Source: MOF

Note: Table 6 are crude estimates of allocations of budgets under each GPA. Allocations that do not fall under a GPA are under the Public Sector System Reform.

6. GOVERNMENT BUDGET: FUNDING ALLOCATION

6.1 RECURRENT BUDGET

6.1.1 Recurrent Budget Performance in FY 2020

1. Total receipts were short by \$12.7 million from the original target of \$363.4 million due to decline in both collections from tax revenues by \$19.4 million and \$4.3 million from non-tax revenues. There was also an offset by \$12 million receipts from capital and other transfers particularly from issuing of \$13 million new government bond.

2. Tax revenues are the largest component of domestic revenue which was approximately 82 percent in FY 2020 actual collection but was short by \$19.4 million from original estimate of \$249.9 million. This was due to decline from the income and trade tax

categories as COVID-19 affected businesses in the tourism industry. However, tax revenue was only \$3.8 million lower than FY 2019 collection; reflecting maintained levels of domestic consumption supported by robust level of remittances during COVID-19.

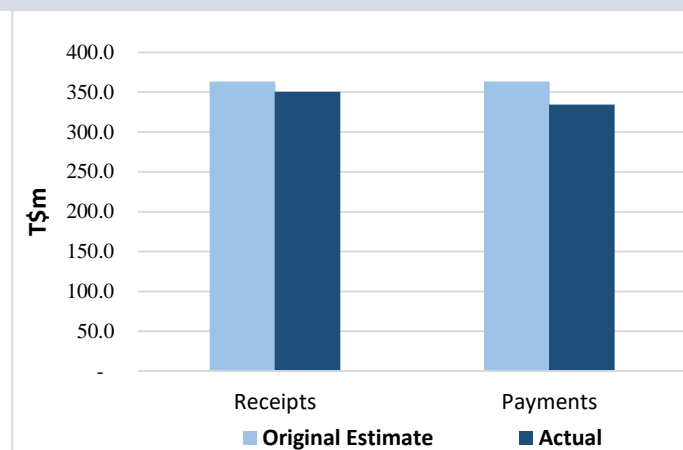
3. Non-tax revenue collection was short by \$4.3 million compared to the original target of \$55.3 million due to the COVID-19 travel restrictions including less collection from passport and visa fees, and service charges on international outgoing flight passengers. However, non-tax revenue collection remained significantly higher than FY 2019 by \$12.8 million triggered by the \$5 million transfer from NRBT and a \$5 million higher collection from dividends from public enterprises.

4. The Government issued a new bond worth \$13 million anticipating a shortfall in domestic revenue due to COVID-19. Without this new bond, there would have been a \$2.4 million deficit.

5. With relation to budget support, all anticipated receipts from development partners were received as expected reflecting strong support, coordination and implementation of Government reforms with development partners. The slight shortfall of \$0.9 million from the original target of \$38.5 million was due to fluctuation in exchange rates.

6. Total payments were lower by \$28.9 million in comparison to the original target of \$363.4 million driven largely by wage bill expenses - \$17.8 million and operational expenses - \$10.4 million. The wage bill is the largest allocation of spending approximately 45 percent of the recurrent budget. There was lower spending recorded due to resultant vacancies majority from Ministry of Health (MOH) and Ministry of Education and Training (MET). The MOH has the highest spending on overtime costs at \$4 million followed by Ministry of Revenue and Customs (MORC) and the Ministry of Finance (MOF) signifying a need to review the pressures on wage bill to ensure sustainable management in the medium term.

Figure 5: Recurrent Budget for FY 2020 (T\$m)



Source: MOF

7. As previously mentioned, total cost of operational activities was lower due to the delays in executing planned reconstruction projects, restricted international travel and less purchases due to COVID-19 restrictions. Below are the key operational activities implemented including:

- Maintenance of road infrastructure project;
- Establishment of hand washing basins in all primary schools throughout Tonga as part of the COVID-19 Response;
- Construction projects such as Royal Palace in 'Eua and a new Ministry of Fisheries office in Ha'apai recovering from cyclone damage;
- Community development including the continuous assistance of local communities' trade and employment initiatives including subsidy of local fish prices.

8. The overall balance for FY 2020 was \$16.2 million surplus.

6.1.2 Recurrent Budget Performance in FY 2021

Table 7: Recurrent Performance in FY 2021 (T\$m)

	Actual 2019/20	Approved Estimate 2020/21	Revised Outturn 2020/21	Budget for 2021/22	Projection for 2022/23	Projection for 2023/24
RECEIPTS	350.7	320.4	299.0	333.3	335.4	344.4
<i>Tax</i>	<i>229.6</i>	<i>230.9</i>	<i>218.6</i>	<i>237.2</i>	<i>242.4</i>	<i>243.8</i>
Income Tax	52.5	54.6	45.6	50.4	52.3	53.4
Trade Taxes	18.1	21.0	18.9	22.3	23.3	23.5
Taxes on Good & Services	95.0	91.7	95.7	99.1	101.3	101.4
Excise Taxes	64.0	63.5	58.4	65.4	65.5	65.5
<i>Non Tax</i>	<i>51.0</i>	<i>34.4</i>	<i>38.0</i>	<i>41.0</i>	<i>37.8</i>	<i>38</i>
Fees & Licences	28.1	25.1	23.7	28.3	27.0	27.4
Entrepreneurial & Property Income	21.2	8.9	13.7	11.5	10.4	10.2
Miscellaneous Revenue Items	1.6	0.4	0.6	1.2	0.4	0.4
Capital & Other Transfers	32.5	16.6	15.3	16.6	16.6	16.6
Budget Support	37.6	38.5	27.1	38.5	38.5	46.0
PAYMENTS	334.5	380.0	321.5	376.2	389.9	409.6
Wage Bill	148.9	166.6	155.3	176.2	176.4	176.5
Operations	147.4	166.9	137.2	158.1	169.0	169.9
Debt	38.1	46.5	29.0	41.9	44.5	63.2
BALANCE	16.2	-59.6	-22.5	-42.8	-54.6	-65.2
Financing Options		59.6	22.6	42.8	54.6	65.2
Grant from DFAT				7.0		
Concessional loan from IMF		19.0	22.6	30.0	30.0	30.0
Government new bonds		20.0			20.0	20.0
Government Cash Reserves		20.6		5.8	4.6	15.2
Surplus/(Deficit)		-	0.1	-	-	-

Source: MOF

- 1) Table 7 summarizes the recurrent budget performance. Accordingly, Government had appropriated a deficit budget of \$59.6 million to be financed by new Government bonds of \$20 million, concessional loans \$19 million from IMF, and Government cash reserves \$20.6 million.
- 2) With financing measures, the revised outturn for total receipts in FY 2021 is estimated to drop by 10 percent to \$321.6 million triggered by one-off bond receipts; impact of COVID-19 on domestic receipts; and deferral of ADB budget support. On the other hand, payments are expected to be lower by 15 percent to \$321.4 million. This is driven by the cost of the

operational activities related to COVID-19 approximately \$20 million and is anticipated to be paid from development grants received from World Bank's additional budget support and offset by increased staffing costs such as overtime related to COVID-19 Response activities.

- 3) Considering the projections, the balance at the end of the FY 2021 would be \$0.1 million surplus. This balance includes concessional loan from IMF \$22.6 million and part of the World Bank budget support of \$69 million received during the year for COVID-19 Response and climate change resilience. From World Bank support, \$11.6 million is accounted for their normal budget support, \$7.5 million to cater for future debt repayments (sinking funds) and \$50 million as development funds.

The amount of \$20 million of development funds is expected to be used for the COVID-19 related recurrent payments for this year. Without this, the balance will result in a \$20 million deficit budget. The remaining \$30 million is anticipated to roll over to FY 2022 to help finance another anticipated deficit budget.

Receipts Performance

- 4) Total collection from tax revenues in FY 2021 is expected to decline by 5 percent which is \$12.3 million from the original target to \$218.6 million, reflecting the impact of COVID-19 on local businesses and trade. For example, total actual collection from both income and trade taxes for the period July-February was recorded at \$37.9 million, a \$3.7 million decrease from the same period in FY 2020 or about \$5 million less than the average of the last three years (FY 2018 - FY 2020).

From excise tax collection, \$65.9 million is anticipated to be collected at the end of this year. Government committed \$7.5 million from the fuel levy collection⁹ to establish the Road Maintenance Trust Fund (RMF) aiming to supplement road related expenses as one of their top priorities. The RMF was deducted from the actual collection from July-February and expected collection from March to June (FY 2021) and used 4 percent increase in excise tax collection compared to the original target of \$63.6 million. On the other hand, CT on domestic consumption continues to remain strong because of increased remittances both cash and in-kind coupled with government stimulus packages to support the local economy.

- 5) Non-Tax Revenues (excluding bond receipts) was initially projected in the beginning of the year to be \$4.6 million lower than the original target due mainly to the COVID-19 travel restrictions, including less collection from tourism and trade related revenues such as passports, visas and service charges on outgoing flight passengers. This assumption remains unchanged, however, the performance of the collection from entrepreneurial and property income (dividends from public enterprises and other income¹⁰ received more than budgeted) was robust to maintain the overall performance of collection from non-taxes at \$2 million higher than the original target of \$36 million.

⁹ Currently \$0.75/litre. Proposed to take \$0.25/litre from July-February collection and \$0.10/litre from March-June's collection

¹⁰ Including transfer from NRBT and FFA Treaty

- 6) Bond Receipts – Government planned to issue new bonds worth \$20 million as a financing measure to finance this year's deficit budget. With the additional budget support of \$69 million received from the World Bank and the concessional loan of \$22.6 million (original budget was \$19 million) from IMF, there is no need to issue new bonds or drawdown of Government reserves.
- 7) Budget Support received to date is: \$5.7 million from the EU for FY 2020 triggered performance; \$11.6 million from the World Bank (accounted for in additional budget support from World Bank) and; \$3.1 million from DFAT. The remainder of the budget support of \$6.7 million is anticipated to be received before end of the financial year. Over the medium term (next three FY), the deferral of ADB budget support of \$11.6 million to next year would help in financing the expected deficit budget.

Payments Performance

- 8) Spending on wage bill is anticipated to be around \$11 million lower compared to original estimate. This is related to existing vacancies in MDAs. The Ministry of Finance, in liaison with the Office of the PSC, monitors and controls wage bill through implementing measures like implementing a sub-committee to vet all staffing proposal requests. Additionally, instructions for recruitment of resultant vacancies vacated before 14th September 2020 were put on hold while resultant vacancies vacated after 14th September 2020 are going through normal recruitment process. It is noted that recruitment is controlled by implementing measures, however, the spending on other votes related to compensation of employees such as overtime escalate the wage bill. For instance, the MOH monthly overtime cost is two to three times the normal monthly spending due to COVID-19 and this is already accounted for in the total outturn. The appropriate level of wage bill should be 53 percent of total domestic revenue but was recorded at 58 percent at the end of February compared to the original target of 63 percent.
- 9) On the operation side, it was initially projected that spending would be slow by \$9 million to \$166.7 million compared to the original target which is \$175.7 million. However, during the year, the Government provided financial support to productive sectors of the economy that were affected by COVID-19 including \$2 million for businesses and \$7 million for TC Gita housing reconstruction. Due to expected shortfall in total receipts, Government identified some of recurrent payments related to COVID-19 worth of \$20 million to be paid out from World Bank's development funds in order to minimize deficit budget. As a result, operational payments are lower by \$30 million compared to what was appropriated.
- 10) External debt payments are anticipated to drop by about \$15 million from the original target to \$22.6 million triggered by the suspension of EXIM Loan payments which is \$14.6 million as part of COVID-19 related responses.

6.1.3 Recurrent Budget projections for medium term (FY 2022 – FY 2024)

- 1) Despite the impact and challenges of COVID-19 on the domestic economy, Government is committed in FY 2022 to collect \$333.3 million worth of recurrent receipts while aiming to spend \$376.2 million to ensure its services is well delivered. This will result in a deficit budget of \$42.8 million on cash-basis only.
- 2) Government plans to request additional grants as a first preference to finance the \$42.8 million deficit. This includes an indicative grant of \$7 million from DFAT COVID-19 Response. In the event that no additional grants are forthcoming, it is proposed that another concessional loan of USD\$15 million (TOP\$30 million) is requested from IMF. That is, Government will only proceed with the loan from IMF if there are no more additional grants received. Remaining balance to be financed from Government Cash Reserves of \$5.8 million.
- 3) It should be noted that TOP\$30 million as part of budget support received from World Bank in FY 2021 has been factored into the development budget for FY 2022. Some of the recurrent payments have been identified to be paid out from this allocation thereby reducing the deficit to \$42.8 million.
- 4) Furthermore, the key priority spending in FY 2022 in addition to normal operations is listed below.
 - \$5.5 million for the implementation of illicit drugs action plan;
 - \$3.368 million for Community Development;
 - \$4 million Overseas Missions;
 - \$1.2 million Private Sector Development;
 - \$1 million to top up of National Emergency Fund (NEF);
 - \$5 million for Housing Resilience;
 - \$2.2 million for Government Contribution to Development Projects;
 - \$1.9 million for Census and General Election;
 - \$3 million for Human Resource activities;
 - \$1.435 million for other operational expenses.
- 5) In addition to new initiatives listed above, COVID-19 budget (about \$15 million) that was appropriated in FY 2021 budget remains the same in next year's budget to assist MDAs in their preparations and response effort to COVID-19.

6.1.4 Recurrent Expenditure by Ministry**Table 8: Total Recurrent Payments Budget by Ministry (T\$m)**

Ministry/Department/Agencies	Actual 2019/20	Approved Budget 2020/21	Estimated Outturn 2020/21	Budget Estimate 2021/22	Projection 2022/23	Projection 2023/24
Palace Office	4.3	3.7	3.2	3.7	3.7	3.7
Legislative Assembly	11.2	12.5	12.8	14.6	13.6	13.6
Tonga Office of the Auditor General	1.5	1.9	1.5	2.0	2.0	2.0
Office of the Ombudsman	1.3	1.5	1.2	2.2	2.2	2.2
Ministry of Foreign Affairs (MINOFA)	9.7	10.3	11.4	14.3	14.9	14.9
His Majesty's Armed Forces (HMAF)	10.1	10.7	10.0	11.2	11.2	11.2
Prime Minister's Office (PMO)	3.7	4.5	3.6	8.8	8.3	8.3
Ministry of Finance (MOF)	84.8	106.9	79.1	103.7	104.3	122.9
Ministry of Revenue and Customs (MORC)	8.6	10.0	7.9	10.6	10.1	11.1
Ministry of Public Enterprises (MPE)	1.2	1.5	1.4	1.6	1.6	1.6
Ministry of Trade and Economic Development (MTEC)	5.4	7.0	5.6	7.0	7.0	7.0
Ministry of Justice (MOJ)	10.6	11.7	11.0	12.6	12.2	12.2
Office of the Attorney General (AGO)	2.8	3.2	2.9	3.4	3.5	3.5
Ministry of Police and Fire Services (MPFS)	13.6	13.7	13.0	15.3	15.2	15.2
Ministry of Health (MOH)	43.5	48.2	43.1	44.0	49.3	49.3
Ministry of Education and Training (MET)	56.6	56.8	53.3	56.3	57.4	57.4
Ministry of Internal Affairs (MLA)	7.3	8.3	7.1	4.9	5.0	5.0
Ministry of Agriculture, Food and Forests (MAFF)	9.3	10.4	9.2	10.2	10.4	10.4
Ministry of Infrastructure (MOI)	23.8	25.2	17.4	15.5	25.4	25.4
Ministry of Lands and Natural Resources (MLNR)	4.8	6.1	4.7	6.2	6.2	6.2
Office of the Public Service Commission (PSC)	1.8	2.1	1.8	2.1	2.1	2.1
Statistics Department	2.9	3.3	2.5	4.9	3.4	3.4
Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change (MEIDECC)	7.6	8.3	7.5	8.7	8.7	8.7
Ministry of Fisheries	4.3	4.7	4.0	4.9	4.8	4.8
Ministry of Tourism	4.1	7.5	6.2	7.5	7.5	7.5
Grand Total	334.5	380.0	321.5	376.2	389.9	409.6

Source: MOF

- 6) The baseline budget for FY 2022 was distributed with the assumption to maintain FY 2022 baseline budget with adjustments in the medium-term to reflect changes in debt repayments, particularly in FY 2024 with the repayment of the China EXIM loan after re-profiling to take into account the debt service suspension initiative (DSSI). With the baseline budget, adjustments were made to reflect new initiatives and priorities from MDAs budget submission to accelerate delivery of services to ensure intended outcomes in TSDF II and GPA are achieved. These initiatives were listed in Section 6.1.3 paragraph 4 above and it is reflected in the above table by Ministry. The table shows the distribution of Government's budget to 25 MDAs. MET remains the largest recipient (15 percent) of Government's recurrent budget. Second largest is MOH, about 12 percent of total recurrent budget. In FY 2020, 65 percent of MOH total budget was utilized for expenses related to compensation of employees while 35 percent was for the ministry's operation.
- 7) MDAs highlighted in red indicate their proposed budget for next year is less than the baseline budget because some of their recurrent payments are paid out from World Bank's development funds. These payments are related to COVID-19 and major infrastructure projects. This strategy helps to maintain the deficit budget next year at an affordable level.

6.1.5 Recurrent Expenditure by Category**Table 9: Total Recurrent Payments Budget by Category (T\$m)**

Payment's Major Category	Actual 2019/20	Approved Budget 2020/21	Estimated Outturn 2020/21	Budget Estimate 2021/22	Projection 2022/23	Projection 2023/24
Established Staff (10xx)	135.4	150.8	139.8	158.0	159.6	159.6
Unestablished Staff (11xx)	8.9	10.3	11.1	12.6	11.3	11.3
Travel and Communication (12xx)	12.5	9.2	9.6	10.9	11.7	11.7
Maintenance and Operations (13xx)	26.1	28.7	20.8	19.7	29.4	29.4
Purchase of Goods and Services (14xx)	47.9	64.3	50.6	53.0	57.0	57.0
Grants and Transfers (15xx)	47.4	42.5	41.7	45.5	43.0	43.0
Development Duties Expenditure (16xx)	1.0	3.8	2.0	5.6	3.6	3.6
Debt Management (17xx)	38.1	46.5	29.0	41.9	44.5	63.2
Contingency Fund (18xx)	0.0	5.0	5.0	10.0	5.0	5.0
Pension & Gratuities (19xx)	4.6	5.5	4.5	5.5	5.5	5.5
Assets (20xx)	12.4	13.1	7.1	13.0	18.8	19.8
Equity Payment (21xx)	0.0	0.4	0.4	0.4	0.4	0.4
Grand Total	334.5	380.0	321.5	376.2	389.9	409.6

Source: MOF

- 8) Table 9 illustrates the Government's recurrent payments budget by major categories. Accordingly, the wage bill (CAT 10xx, 11xx & 19xx) amounts to 45 percent of the recurrent budget in FY 2020. It is projected that it will increase by about 5.7 percent to \$176.2 million in FY 2022 compared to what was appropriated in FY 2021. The anticipated increase in next year's wage bill is primarily due to \$0.3 million returning scholars and staff promotions, \$0.4 million HMAF promotions, \$2 million overtime for MOH due to COVID-19, \$500k Government obligation, \$1.5 million for Population Census (for compensation of enumerators) and \$2 million PMS of all staff. Additionally, new initiatives approved including duty allowance for District and Town Officers \$428k, \$613k for Anti-Corruption under the Office of the Ombudsman and Critical Funds \$1m to cater for critical positions request from MDAs. In addition, technical assistance is currently being engaged to review pressures on wage bill. The result of this review will allow more fiscal space for Government operations of key priorities implementation.
- 9) On operational expenses, travel and communication are expected to increase by \$1.6 million to \$10.8 million from original estimate in FY 2021 because COVID-19 votes (\$15 million was budgeted for in FY 2021 under CAT 14xx) were broken down into different votes such as office supplies, domestic travels, email & internet, telecommunication charge and so forth. As a result, \$1.6 million was diverted from CAT 14xx to CAT 12xx.
- 10) Contingency Fund is increased by \$5 million to \$10 million in FY 2022. This increase is to combat illicit drugs activities. The drawdown of this fund will be based on the overall plan for dealing with illicit drugs.
- 11) Maintenance and Operations are projected to be lower by \$9 million mainly due to the road project activities that are paid from World Bank development funds. Purchase of goods and services is expected to decline by \$12 million due to COVID-19 votes divided into different categories. Development duties and expenditure are increased to reflect additional \$2 million for Government contribution to development projects.

6.1.6 Recurrent Revenue by Category**Table 10: Total Recurrent Revenue Budget by Category (T\$m)**

Receipts Major Category	Actual 2019/20	Approved Budget 2020/21	Estimated Outturn 2020/21	Budget Estimate 2021/22	Projection 2022/23	Projection 2023/24
Income Tax (00xx)	52.5	54.6	45.6	50.4	52.3	53.4
Trade Taxes (01xx)	18.1	21.0	18.9	22.3	23.3	23.5
Taxes on Goods and Services (03xx)	95.0	91.7	95.7	99.1	101.3	101.4
Excise Taxes (03xx)	64.0	63.5	58.4	65.4	65.5	65.5
Fees & Licences (04xx)	28.1	25.1	23.7	28.3	27.0	27.4
Entrepreneurial & Property Income (05xx)	21.2	8.9	13.7	11.5	10.4	10.2
Miscellaneous Revenue Items (06xx)	1.6	0.4	0.6	1.2	0.4	0.4
Capital & Other Transfers (07xx)	32.5	55.6	37.9	46.6	16.6	16.6
Budget Support & Revolving Fund (08xx)	37.6	38.5	27.2	45.5	38.5	46.0
Grand Total	350.7	359.4	321.7	370.3	335.4	344.4

Source: MOF

- 12) At the outset, the FY 2022 budget aims to collect \$370.3 million which is higher by \$10.9 million compared to \$359.4 million appropriated in FY 2021 by main categories. The triggers of the expected increase in next year's total receipts are: increase in tax revenues by \$6.3 million and \$6.7 million from non-tax revenues and; offset by a decline in capital & other transfers by \$9 million.
- 13) The anticipated increase in tax revenues is mainly due to 2.5 percent economic growth supported by an increase in remittances. This is mirrored in taxes on goods and services and is expected to increase by \$7.4 million next year compared to the approved estimate in FY 2021, up by 3 percent from \$95 million collected in FY 2020. The Government provides financial support to implement the second phase of Point of Sale (POS) project implemented by MORC in FY 2022. This project will allow MORC to access all taxable transactions of businesses aiming to mitigate the fraudulent tax activities and undeclared revenue. Over the medium term, the performance of taxes on goods and services and trade taxes are expected to grow in line with economic growth, remittances and other economic forecasts.
- 14) Excise taxes are anticipated to remain fairly stable in the medium term compared to the approved budget in FY 2021. As previously mentioned, Road Maintenance Funds (RMF) is financed from the fuel levy collection. It is noted that the actual collection from excise taxes next year and that cycle might be less than projected by about \$5-\$6 million. The anticipated increase in tax on tobacco will inject additional \$1m into Government General Revenue.
- 15) The impact of COVID-19 continues to put collection on income tax (Government and non-Government businesses) at risk anticipating to contribute to a short fall of \$4.2 million in next year's collection compared to \$54.6 million in the approved budget for FY 2021. Despite the under-collection, the expected performances of other tax revenue categories will help to maintain the overall performance of tax revenues at 4 percent higher than what was appropriated in FY 2021.

- 16) Non-tax revenues are projected to increase in FY 2022 by 19 percent which is \$6.7 million higher than the appropriated budget in FY 2021. This is due to an increase: \$3.2 million in fees and licenses; \$2.7 million in entrepreneurial and property income and \$0.8 million in other revenue items. The projected increase in fees and licenses is triggered by \$2.4 million from annual motor vehicle examinations, motor driving licenses and motor licenses and registration. Collection from dividends from public enterprises, income from FFA Treaty and other receipts from Government's investment for FY 2022 are expected to maintain this year's performance.
- 17) Capital and other transfers include loans and bonds (both new and roll over) receipt. Without new bonds and loans, the estimate for roll over bonds should be around \$16.6 million as shown in two outer years (FY 2023 and FY 2024). For FY 2022, the Government is anticipated to receive \$7 million additional grants from DFAT and highly concessional loan from IMF of USD\$15 million to finance its deficit budget. The Government will only proceed with the latter if there are no additional grants received.
- 18) Going forward, in line with the economic forecasts, the recurrent budget is expected to recover in the medium-term with the assumptions of no confirmed cases of COVID-19 in the country, and the necessary response measures are well implemented to limit the pandemic's potential economic and social damages.

6.1.7 Recurrent Expenditure by Location

Table 11: Recurrent Expenditure by Location

Location	Actual 2019/20	Approved Budget 2020/21	Estimated Outturn 2020/21	Budget Estimate 2021/22	Projection 2022/23	Projection 2023/24
Nationwide	90.8	113.4	94.1	105.6	107.5	99.5
Tongatapu	206.4	223.8	186.2	226.0	233.5	261.1
Vava'u	13.0	16.6	14.9	15.9	18.7	18.7
Ha'apai	7.4	8.9	7.8	8.5	9.0	9.0
'Eua	5.8	6.4	5.8	5.9	6.3	6.3
Niua Toputapu	1.9	2.1	1.8	2.2	2.3	2.3
Niua Fo'ou	1.4	1.5	1.3	1.7	1.7	1.7
Overseas	7.7	7.4	9.5	10.4	11.0	11.0
Grand Total	334.5	380.0	321.5	376.2	389.9	409.6

Source: MOF

Table 11 shows the distribution of Government's budget by location. It is evident that Tongatapu with the most population has the majority of the recurrent budget allocations-averaging at 60 percent per annum. This share is anticipated to be at the same level in FY 2022 reflecting the largest volume of economic activities in Tongatapu compared to the rest of the islands.

6.2 DEVELOPMENT BUDGET

The total development budget for FY 2022 amounts to \$248.95 million which is 40 percent of the total budget. The estimates consist of \$123.06 million (49 percent) as Cash and \$125.89 million (41 percent) as in-kind contribution.

6.2.1 Aid Funded Project Expenditure by Ministry

Table 13 below outlines the total development budget by Ministries:

Table 12: Total Development Budget (Aid Funded Project Expenditure) by MDAs (\$m)

Ministry Name	Budget Estimate 2019/20 \$m	Actual 19/20 \$m	Budget Estimate 2020/21 \$m	Estimated Outturn 2020/21 \$m	Budget 2021/22 \$m	Projection 2022/23 \$m	Projection 2023/24 \$m	% of Total Budget 2021/22
Palace Office	-	0.01	-	-	-	-	-	0%
Legislative Assembly	1.00	0.05	1.28	0.73	7.80	15.92	10.93	3%
Tonga Office of the Auditor General	0.20	-	0.20	-	-	0.20	0.20	0%
Ministry of Foreign Affairs	0.50	-	0.10	-	0.55	1.47	1.16	0%
His Majesty's Armed Forces	16.90	-	12.13	1.55	5.47	1.43	1.38	2%
Prime Minister's Office	0.16	0.05	-	-	2.60	2.60	2.60	1%
Ministry of Finance	26.88	15.57	59.40	103.40	50.90	17.62	17.44	20%
Ministry of Public Enterprises	14.00	-	-	-	-	-	-	0%
Ministry of Trade and Economic Development	0.31	1.84	0.01	0.09	-	-	-	0%
Ministry of Justice and Prison	1.05	0.89	1.97	1.67	2.35	0.22	-	1%
Attorney General's Office	0.19	0.11	0.15	0.19	0.18	0.09	-	0%
Ministry of Police & Fire Services	2.90	4.10	1.54	1.74	0.27	0.21	0.08	0%
Ministry of Health	13.99	8.93	22.42	24.70	33.93	13.71	13.85	14%
Ministry of Education & Training	13.57	8.43	16.53	3.20	18.39	24.00	23.15	7%
Ministry of Internal Affairs	19.77	7.39	7.56	7.41	9.66	7.74	3.80	4%
Ministry of Agriculture, Food & Forests	4.90	2.90	3.09	0.87	5.00	7.63	2.43	2%
Ministry of Infrastructure	28.64	21.45	19.06	6.67	24.15	50.37	47.42	10%
Ministry of Lands & Natural Resources	5.83	1.54	6.50	0.51	9.91	10.20	10.20	4%
Public Service Commission	0.44	0.35	0.29	0.01	-	-	-	0%
Statistics Department	-	0.18	1.11	0.31	0.24	0.49	0.49	0%
Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change	76.85	56.30	49.36	31.75	74.02	21.59	15.27	30%
Ministry of Fisheries	3.48	1.50	5.09	0.95	3.43	2.86	2.05	1%
Ministry of Tourism	4.30	0.30	1.75	0.10	0.10	-	-	0%
Grand Total	235.86	131.86	209.55	185.83	248.95	178.35	152.43	100%

Source: MOF

As per table 13 above, MEIDECC has the highest allocation with \$74.02 million (30 percent), followed by the Ministry of Finance \$50.90 million (20 percent), then Ministry of Health \$33.93 million (14 percent), Ministry of Infrastructure \$24.15 million (10 percent) and Ministry of Education & Training \$18.39 (7 percent) followed by the rest of the MDAs.

The major projects under MEIDECC are the ongoing a) GCF-ADB Tonga Renewable Energy Project, Outer Island Renewable Energy Project, Wind Power projects funded by Japan and China; and b) adaptation projects such as WB Pacific Resilience Program (PREP), GCF readiness, Japan Nation-Wide Early Warning System (NEWS), GCF Tonga Coastal Resilience Project, GCF strengthening Adaptation Plan, Climate Resilience Coastal Fisheries and Aquaculture, and other climate change related projects.

The **Ministry of Finance** is currently implementing the additional budget support of \$30 million for COVID-19 special projects, Central Service Unit (CSU) services, WB Tonga Government Digital Support Project (TDGSP), IFAD TRIP II Additional Financing, GGP projects and NPGA initiatives funded by Japan and EU National Authority Office (NAO) 11th EDF operations.

The **Ministry Health** will continue to implement the COVID-19 activities under the Pandemic National Action Plan, ADB New vaccine project and roll-out of COVID-19 Vaccines, E-Health Project, and DFAT Tonga Health Support Sector Program II and III. New Zealand continues to fund Health Corridor Program together with their overseas medical treatment scheme.

The **Ministry of Infrastructure** continues working on the WB Tonga Climate Resilience Transport Project (TCRTP) upgrading of major infrastructures such as roads, aviation and maritime works.

The ADB Transport Project Development Facility (TPDF) preparation continues with the Fanga'uta Lagoon Bridge project.

Nuku'alofa Port Upgrade PMU is currently established and construction will commence later next year. The Pacific Maritime Training and Aviation Security Projects of \$2.1 million continues with the support of the Government of New Zealand.

The major projects under the **Ministry of Education and Training** comprise of local and regional scholarships funded by the Government of Australia and New Zealand. The Global Partnership for Education (GPE) supported by Australia is continuing to help mitigate the COVID-19 impact on children's education. New Zealand provided regional support of \$2 million in areas of inclusive and vocational education. The WB Tonga Safer Resilient Schools project (\$4.4 million) will commence later this year.

6.2.2 Development Expenditure by Location

Table 14 below shows the development budget expenditure by location throughout Tongatapu, Vava'u, Ha'apai, 'Eua, the two Niuas and Nationwide.

Table 13: Total Development Budget (Expenditure) by Location (\$m)

Location	Budget Estimate 2019/20 \$m	Actual 19/20 \$m	Budget Estimate 2020/21 \$m	Estimated Outturn 2020/21 \$m	Budget 2021/22 \$m	Projection 2022/23 \$m	Projection 2023/24 \$m	% of Total Budget 2021/22
Nationwide	87.59	52.21	104.18	117.79	99.07	106.62	91.96	40%
Tongatapu	123.37	60.72	81.60	59.37	116.92	58.45	47.27	47%
Vava'u	7.73	6.81	8.93	2.51	7.55	2.84	2.78	3%
Ha'apai	5.32	2.83	6.64	3.18	10.95	3.56	3.54	4%
Eua	5.15	4.30	3.18	1.02	4.48	1.66	1.66	2%
Niuatoputapu	4.90	4.61	2.72	1.01	2.18	0.50	0.50	1%
Niuafo'ou	1.80	0.38	2.31	0.96	7.80	4.73	4.73	3%
Grand Total	235.86	131.86	209.55	185.83	248.95	178.35	152.43	100%

Source: MOF

Nationwide makes up 40 percent or \$99.07 million of the total development budget for FY 2022. The majority of projects fall under the Social Infrastructure and Services Sector of \$50.04 million, Cross-cutting sector of \$24.39 million and Economic Infrastructure and Services sector of \$24.44 million. The total nationwide allocation has decreased by 5 percent from the previous financial year of \$104.18 million. These projects reflect the inclusiveness of development and growth across all island locations, where some projects have closed.

Tongatapu

The total amount of projects is \$116.92 million (47 percent) of the total development budget which makes up of the social infrastructure services of \$92 million and economic investments of \$14.67 million. Social Infrastructure services include:

- Other social infrastructure of \$50.72 million, Health related projects of \$28.97 million, Government Civil Society \$10.8 million and Education of \$1.43 million;
- Major projects under economic and infrastructure services include: Energy-related projects \$18.9 million and Transport and storage \$3.7 million.

Vava'u

Projects to be implemented in Vava'u are valued at \$7.55 million (3 percent) of the total development budget. Major projects include Outer Island Renewable energy (OIREP) of \$6.2 million, MORDI community development programs of \$500,000 and the upgrading of Fangatongo Military camp \$0.646 million.

Ha'apai

The allocation for Ha'apai is \$10.95 million (4 percent) of the total development budget. This consists of ongoing OIREP renewable energy projects of \$10.23 million, World Bank Funded Skills and Employment project, together with the Tonga Fish Pathway Project. MORDI also contributes through community development programs.

'Eua

The allocation for 'Eua is \$4.48 million (2 percent) of the total development budget. A total of \$3.5 million is earmarked for Renewable Energy Projects, \$500,000 for MORDI led community engagements, together with ongoing UNFPA training.

Niuatoputapu and Niuafu'ou

The Niua have a combined total of \$9.98 million (4 percent) of the Development Budget. Major initiatives across both Island groups include renewable energy related projects of \$7.93 million. TRIP 2 with a total of \$1.1 million and the Tonga Fish Pathways Project through the provisions of fishing boats and technical equipment of \$935,000.

6.3.3 Development Expenditure by Development Partners

Development partners continue to play a critical role in the growth of the country as outlined in Table 15.

Table 14: Total Development Budget (Expenditure) by Development Partners (\$m)

Donor	Budget Estimate 2019/20 Sm	Actual 19/20 Sm	Budget Estimate 2020/21 Sm	Estimated Outturn 2020/21 Sm	Budget 2021/22 Sm	Projection 2022/23 Sm	Projection 2023/24 Sm	% of Budget Estimate 2020/21
Asian Development Bank(ADB)	41.9	15.5	25.0	19.2	43.3	35.1	40.6	17%
Government of Australia	28.8	10.2	30.8	17.3	29.5	28.1	24.3	12%
Crop Agencies	0.8	2.0	2.8	0.6	2.4	0.9	0.9	1%
European Union	8.3	1.2	0.6	4.9	0.4	0.0	0.0	0%
Government of Japan	22.2	20.0	2.1	2.0	5.4	3.1	2.2	2%
Government of New Zealand	14.7	18.9	16.4	8.5	28.4	25.0	17.8	11%
Green Climate Fund	5.3	0.3	6.2	2.5	25.4	10.0	11.3	10%
Other Donors	19.7	11.3	60.4	33.9	6.9	5.2	5.0	3%
People's Republic of China	18.2	13.1	21.3	4.8	4.6	3.7	4.2	2%
Pooled Funds - Australia & NZ	2.5	3.7	-	1.4	-	-	-	0%
United Nation Agencies	6.0	3.6	10.2	5.8	8.0	3.8	3.3	3%
World Bank/International Development Agency (IDA)	67.4	32.1	33.8	85.0	94.6	63.3	42.8	38%
Grand Total	235.9	131.9	209.6	185.8	249.0	178.4	152.4	100%

Source: MOF

World Bank

Projects currently funded under **World Bank IDA18 funding cycle (2017/18 – 2019/20)** of US\$67.8 million is on its third year of implementation. These projects comprise of:

- 1. Pacific Resilience Program (USD\$33.89 million).** The PREP aims to strengthen Tonga's early warning, resilient investments and financial protection. This project funded the construction of 25 school damaged by TC Gita and Emergency Headquarters for Haápai and Vava'u. The Emergency Headquarter for Tongatapu is anticipated to be completed this financial year.
- 2. Skills and Employment Project (USD\$20 million).** The SET project continues to improve opportunities for secondary school progression and facilitate the transition to jobs in the domestic and overseas labor markets for Tongans. The project components include a Conditional Cash Transfer (CCT) program for secondary school enrolment and attendance, Strengthening TVET provision, enhancing opportunities for labor migration and Project management, monitoring and evaluation, and centralized support.
- 3. Tonga Climate Resilient Transport Project (USD\$27.8 million).** This project continues to improve resilience in the transport sector which include road, maritime, aviation as well as provide immediate response in the event of an Eligible Crisis or Emergency. The Project assists with the Sectoral and Spatial Planning Tools, Climate Resilient Infrastructure Solutions and Strengthening the Enabling Environment and Contingency Emergency Response.

4. **Pathway to Sustainable Oceans Project (USD\$10 million).** This project improves selected fisheries management areas and aquaculture which includes strengthening of the Ministry's compliance capacities, monitoring & surveillance of Tonga's Exclusive Economic Zone. It will further provide fisheries equipment, boats, and drones to assist with inshore fisheries management. At the same time, there will be development of the Fisheries Management Plan, Tuna and Snapper marketing strategies.
5. **Tonga Digital Government Support Project (USD\$4.75 million).** The project is currently in progress to improve digital public service delivery. The project components are Enabling Environment and Continuous Improvement, Government Enterprise Architecture, Core Registries: Civil Registration and National ID Systems and Digital Government Infrastructure.
6. **Statistical Innovations and Capacity Building Project (USD\$2m).** The project is still in its early stage and aims at improving the quality and efficiency of welfare data collection, and accessibility to comparable welfare data in Tonga.
7. **The World Bank budget support (USD\$5.5 million)** for FY 2022 as part of the Joint Policy Reform Matrix is expected to be completed before end of June with expected disbursement at the beginning of FY 2022.

Government's priority for **IDA19 (FY 2021 – 2023)** of USD\$68 million is allocated as follows:

- a. Transport sector \$35 million;
- b. Safer Schools \$10 million;
- c. Catastrophe Deferred Drawdown Operation (CATDDO) of \$4 million; and
- d. Budget support of \$15 million.

Asian Development Bank

ADB supports Government's five key priority sectors including (i) transport infrastructure; (ii) energy, climate change and disaster risk reduction; (iii) economic development; (iv) public sector reform; and (v) health. The total value of ADB's active investment portfolio in Tonga is approximately US\$190 million. ADB's assistance covers a range of development needs including COVID-19, health systems, transport infrastructure, climate resilience, disaster recovery, renewable energy, and urban development. These projects are:

- Integrated Urban Resilience (US\$18.3 million);
- Outer Islands Renewable Energy (US\$28.12 million);
- Tonga Renewable Energy (US\$53.2 million);
- System Strengthening for Effective Coverage of New Vaccines in the Pacific (US\$3.85 million), plan is underway for additional financing to assist with COVID-19 vaccines;
- Climate Resilience Sector (US\$19.25 million);
- Introducing E-Government through Digital Health (US\$7.5 million);
- Nuku'alofa Port Upgrading (US\$45 million);
- Pacific Disaster Resilience Program Phase 3 (US\$10 million; and

- Transport Sector Project Readiness Facility (US\$5 million) to prepare the Fanga'uta Lagoon Bridge and Nuku'alofa Port Upgrade projects.

ADB continues to collaborate closely with development partners to deliver the substantial and transformative investments needed in Tonga. In particular, the bank liaises with the governments of Australia and New Zealand to attract co-financing for large-scale projects with significant development impact.

Government of Australia

The **Government of Australia's** (DFAT) next Aid Investment Plan (AIP) is currently designed with similar thematic areas which are: i) Supporting economic, governance and private sector development reforms; ii) Promote a more effective, efficient and equitable health system; iii) Improving economic opportunities for Tongan workers through investments in skills development; and iv) Cross-cutting issues such as gender, climate change, elderly and disability.

Major projects currently active are the Tonga Health Sector Support Program (THSSP 2 & 3), co-financing ADB Outer Island Renewable Energy Project (OIREP), GCF Tonga Renewable Energy Project (TREP) which aims to reduce the use of fossil fuels in the Kingdom, and the WB Skilled Employment of Tonga (SET) Project. In addition, DFAT continues to provide additional budget support towards the Economic Stimulus package.

Government of New Zealand

The **Government of New Zealand** (MFAT) provides assistance through their Joint Commitment for Development program, in which the next funding cycle is currently being designed for the next triennium (2021-2024) commencing 1 July 2021. The areas of investment are likely to cover Energy, Economic development, Education/skills development and Law and Justice.

The ongoing projects include the Tonga Justice Support Sector Project (TJSSP), Tonga Vanilla Initiative, Support for Tonga Education, Technical Support for the Tonga Electoral Commission and salary support for the Director of Public Prosecutions (DPP) and Police Commissioner, Nukualofa Network Upgrade Project, additional support towards energy efficiency and Medical Treatment Scheme.

Activities that are currently in the concept and design stages include the Tonga Health Workforce Programme; Salvation Army Alcohol and Drug Addiction Treatment Programme with special emphasis on deportee reintegration; Tonga Police Programme; Tonga Skills Development; Climate Resilient Water and Sanitation; Tonga Education Policy Framework; and the Tonga Parliament Buildings Project, jointly funded with DFAT. These reflect priorities in the Statement of Partnership and the Action Plan from the 2019 High Level Consultations.

Multi-country and regional activities include significant support to the health sector (including Health Corridors activities), activities from the Climate Change Programme, the agriculture sector, and maritime and aviation safety. A suite of Inclusive Education activities is in design.

Two new negotiated partnerships with New-Zealand based NGOs, working in partnership with Tongan NGOs, are currently being designed. Volunteer Service Abroad continues to deliver a small number of e-volunteer assignments remotely. Scholarship programmes will continue across the triennium but changes have to be implemented due to COVID-19.

European Union

The **European Union** (EU) 11th European Development Fund for the period 2014-2020, with €10 million towards the focal sector of energy in the form of budget support and €1.1 million towards the Technical Cooperation Facility (Support to the NAO office and Civil Society), has been on-going with close monitoring of the six Civil Society projects which will close in May 2022. The next EU investment cycle is currently in negotiation between Government of Tonga and European Union for 2021-2027 which includes priority areas as follows:

1. Continued Budget Support implementation modality with Technical Assistance support for Capacity Building & Support to Civil Society Organizations;
2. The Energy Sector to implement the EU funded Tonga Energy Bill;
3. Education Sector in promoting renewable energy in 'Green Schools' to assist Tonga with meeting the national Renewable Energy and Energy Efficiency targets that are challenged by threats such as severe frequent natural disasters;
4. Border Management to build into a regional program signed with IOM for national support;
5. Green-Blue Alliance in the Pacific; and
6. COVID-19 Sustainable Recovery short term measures and Private Sector Development.

Peoples Republic of China

China established the "China-Pacific Island Countries anti-Covid-19 Cooperation Fund" in 2020 to exclusively promote the PICs' COVID-19 response including PPE & medical equipment to support Tongan health sector preparedness including vaccines.

The China-aid agricultural technical cooperation programs are progressing well in Tongatapu and Vava'u, and a Phase 6 is scheduled to start later in 2021. Both Governments are negotiating the agreement for a new phase of technical cooperation, which aims to be implemented in 2021 depending on the re-opening of the border.

Friendship assistance from Chinese Guangdong Province to Tonga has made great relief during the pandemic in 2020 including RMB 2 million grant for COVID-19 response, the completion of the sidewalk project and the donation of tractors, fishing boats, solar streetlights, and water tanks.

The major projects such as the wind power plant, the Tonga High School sport complex and the customs inspection equipment will be implemented after the re-opening of border.

Government of Japan

Japan's Economic Cooperation with Tonga focuses on five main areas:

- (i) *General Grant Aid Cooperation* provides assistance to major infrastructure projects. This includes the Nation-Wide Early Warning System (NEWS) which is extended to complete on 30th April 2023. The JICA Data Collection Survey for the Fua'amotu and Vava'u international airport has been completed.

- (ii) *Grant Assistance for Grass Roots Human Security Projects (GGP)* mainly targets improvement of Basic Human Needs (BHN) in grass-roots level. GGP provides financial assistance mainly to NGOs, such as a parents and teachers association (PTA) of schools, village water committees, and grass root communities.
- (iii) *Non- Project Grant Aid (NPGA)* is a grant aid intended to provide support by promoting developing country's economic and social development. This scheme is dedicated to the provision of high-quality equipment made in Japan and currently providing medical equipment for anti-COVID-19 measures and Asphalt Distributor Truck which is scheduled to arrive in Tonga next Financial Year.
- (iv) *Technical Cooperation* Japan provides various volunteers with skills (JICA Overseas Cooperation Volunteers: JOCV) and specialists to assist in areas such as health, education and sports. Under this scheme, a Japanese debt management adviser will start in Tonga next Financial Year.

United Nations

The United Nations continue to support Tonga's development priorities through the United Nation Pacific Plan 2018-2022 in response to the need of 14 Pacific Islands Countries.

There are six outcomes namely (i) Climate Change, Disaster Resilience and Environmental Protection, (ii) Gender Equality, (iii) Sustainable and Inclusive Economic Empowerment, (iv) Equitable Basic Services, (v) Governance and Community Engagement; and (vi) Human Rights.

The United Nations provided financial assistance to support COVID-19 responses and interventions, including the India UN Development Fund which provided medical supplies for frontline workers.

The United Nations also supported the government in reviewing the COVID-19 Social and Economic Impact Assessment and Response, Health System Strengthening program, promoting digital teaching and learning, supporting Renewable Energy and Energy Efficiency and Support to enhance hydro-meteorological services and National Statistical System.

IFAD

The International Fund for Agricultural Development (IFAD) funds the Tonga Rural Innovation Project II (TRIP II) that is currently implemented by MORDI. A total of 122 communities' benefit from this 5-year project.

The IFAD fund has a concessional loan component with 40 years grace period. In 2018, the original financing of USD\$6.0million of which 50 percent loan and 50 percent grant. IFAD has continued to provide additional financing of USD\$4.5m of which 20 percent loan and 80 percent grant with further \$700k grants and to be effective in 2022.

TRIP II continues to support resilient and sustainable livelihoods and agricultural practices through partnership with rural population covering the two Niuas, 'Eua, Ha'apai, Vava'u and Tongatapu.

Work has been done for the upgrading of water supplies, community farms including the provision of planting and fencing materials, reviewing of community plans development targets, distributing vegetable seedlings to small holder farmers, individual households, women, youth and primary schools, and providing saplings as a safety net to food security during the COVID-19 lockdown.

Green Climate Fund

While accreditation is underway for the GCF facility, the Government of Tonga receives financing through the international accreditation entities. The Asian Development Bank had accessed a total of US\$29.9 million to fund the implementation of the Tonga Renewable Energy Project. The United Nations Environmental Program (UNEP), Climate Technology Centre and Network (CTCN) also developed the Tonga Energy Efficiency Master Plan (TEEMP) from the GCF readiness fund.

The GCF Readiness program aims at enhancing the capacity of national institutions to engage efficiently with the facility and also assist in adaptation planning and strategic frameworks development. In 2020, the National Adaptation Program was approved to strengthen MEIDECC (NDA) and MOF (delivery partner) capacity for effective adaptation planning. Tonga has accessed over \$2.0 million from the readiness program.

Tonga is also working with Regional Implementing Entities (RIE) on project concept notes to seek funding from GCF. The SPC project proposal is to strengthen Tonga's coastal fisheries and aquaculture while SPREP's proposal is on weather and climate services for resilient development.

The CROP agencies assistance in the region has been ongoing with technical support services towards climate resilience adaptation and mitigation such as SPREP and SPC. At the same time, PRIF is currently reviewing the National Investment Infrastructure Plan (NIIP) III in order to link large projects to Government priorities.

Other Donor Funds include the Korean and India grants that the Government receives on an annual basis. Government priorities of water tanks has been submitted to accommodate for the increasing demand of water storage capacity requested by communities.

7. CONCLUSION

The theme for the FY 2022 Budget is *'By God's grace we are saved through faith'* given the great challenge that the world is facing with COVID -19. Only by God's grace that Tonga has survived the great adverse impact of the pandemic and is amongst the few countries in the globe that is COVID free.

Government's Deficit Budget for FY 2022 will continue to prioritize non-debt financing measures as the most preferred option. That is, Government will seek additional grants from development partners. Priority spending will focus on three thematic areas; (i) people's basic needs including health and education; (ii) recovery efforts from the impact of COVID-19; and (iii) building resilience in all infrastructure development and country system. Government will continue efforts to safeguard our border from the virus and its negative impact on the economy.

Despite the current struggle in key economic sectors and activities, the outlook is positive as we continue to work and support each other to facilitate economic recovery. This will include supporting the effective implementation of major infrastructure projects, reviving the business sector, providing employment, and helping those in need especially the vulnerable.

Effective partnership and collaboration with key stakeholders are critical especially during this challenging time. The ongoing assistance from development partners is very important, without which, we will not be able to effectively deliver essential services to our people in difficult times. At the same time, our diaspora overseas is crucial as they continue to maintain the level of remittances to families in Tonga. We also welcome the collaboration with the National Reserve Bank of Tonga to ensure complementarities of fiscal and monetary policies towards Tonga's overall development.

MDAs are strongly encouraged to prioritize their respective corporate plans under each priority area that is relevant to them, within their respective funding envelopes and to deliver nothing but the best service to the people of Tonga and beyond.

Government, with the leadership of the Prime Minister and Church Leaders, will continue with the National Prayer and Fasting Program in seeking guidance from the Almighty to protect and safeguard us through this challenging time.

I reiterate our Budget theme: *'By God's grace we are saved through faith'*.

ANNEXES

8. ANNEX I: MACROECONOMIC AND FISCAL OUTCOMES AND OUTLOOK**8.1 Medium Term Fiscal Framework (GFS Format)**

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.

An overall fiscal deficit is estimated for FY 2021 and FY 2022 due to COVID-19. The overall revenue is estimated to decline significantly, from 41.6 percent of GDP of the original estimate for FY 2021 to 38.1 percent of the estimated outturn FY 2021. Total expenses are estimated to fall from 40.2 percent of GDP to 33.9 percent compared to the FY 2021 of the original estimate. The decline in the estimated outturn reflects Government's effort to control spending and refocus on key essential spending including the preparation to combat COVID-19.

Table 15: Government Finance Statistics (GFS)

	2018/19 Actual	2019/20 Actual	Budget Estimate 2020 /21	Estimated Outturn 2020 /21	Budget Estimate 2021/22	2022/23 Projection	2023/24 Projection
Revenue	485.2	494.4	512.9	469.7	572.2	496.7	472.0
Tax and Non-tax Revenue	272.7	280.8	265.0	256.6	277.8	279.8	281.4
Grants	212.5	213.7	247.9	213.1	294.4	216.8	190.6
Current	34.9	37.6	38.5	27.2	45.5	38.5	38.5
Capital	177.6	176.1	209.4	186.0	249.0	178.4	152.2
Expense	352.2	376.9	495.8	417.8	515.9	436.8	432.3
Compensation of employees	134.5	148.7	166.6	155.4	178.5	176.9	176.3
Use of goods and services	151.0	169.7	261.4	209.7	263.6	191.6	188.1
Interest	8.0	8.2	8.8	6.4	8.8	8.5	8.0
Subsidies	0.9	0.8	0.9	0.8	1.3	1.0	1.0
Grants	2.9	3.7	4.3	4.7	4.3	4.3	4.3
Social benefits	25.3	22.3	28.0	17.0	28.8	27.9	27.9
Other expense	29.6	23.4	25.8	23.8	30.6	26.8	26.8
Gross Operating Balance	132.9	117.5	17.2	51.8	56.3	59.8	39.7
Net Acquisition Of Nonfinancial Assets	96.1	57.8	54.5	63.1	75.2	95.1	74.2
Net Lending/Borrowing Requirement	36.8	59.7	-37.4	-11.2	-18.8	-35.2	-34.5
Net Acquisition Of Financial Assets And Liabilities (Financing)	(36.8)	(59.7)	37.4	11.2	18.8	35.2	34.5
Financial Assets	(23.4)	(61.5)	20.1	(4.8)	5.5	54.9	73.2
Domestic	(23.4)	(61.5)	20.1	(4.8)	5.5	54.9	73.2
Currency and deposits	(16.3)	(61.7)	19.8	(5.0)	5.8	55.2	73.5
Loans	(7.1)	0.2	0.7	(0.2)	(0.7)	(0.7)	(0.7)
Shares and other equity	-	-	(0.4)	0.4	0.4	0.4	0.4
Financial Liabilities	(13.4)	1.9	17.2	15.6	13.3	(19.6)	(38.7)
Domestic	0.0	12.9	20.9	0.1	0.9	0.9	8.9
Loans	15.2	31.9	35.9	15.1	15.9	15.9	15.9
Repayments	15.2	19.0	15.0	15.0	15.0	15.0	7.0
Foreign	(13.4)	(10.9)	(3.7)	15.5	12.4	(20.6)	(47.7)
Loans	-	-	19.0	22.6	30.0	-	-
Repayments	13.4	10.9	22.7	7.1	17.6	20.6	47.7

Fiscal position in FY 2022 estimates a deficit of \$18.8 million reflecting the prolonged impacts of the pandemic and ongoing recovery and preparation effort towards COVID-19. Government will continue to control spending to maintain macroeconomic stability.

TAX REVENUES

Tax Revenue is classified into five (5) major components. It consists of: Taxes on income, profits and capital gains, Taxes on property, Taxes on goods and services, Taxes on international trade and transactions and Other taxes. The table below demonstrates that the Taxes on goods and services is the main source of Tax Revenue, contributing 68.7 percent towards the overall tax revenue for FY 2022, followed by income taxes by 20.6 percent and taxes on international trade by 10.5 percent.

The total Tax Revenue for FY 2022 is estimated at \$244.3 million (18.5 percent of GDP). This is an increase from the original estimate for FY 2021 by 3.2 percent (\$7.6 million) and projected to be slightly above the estimated outturn by 7.8 percent (\$17.8 million). These were largely attributed to the higher revenue projections from the taxes of goods and services. Furthermore, the recovery in economic activities, the continuous improvement in enforcement and compliances, the completion of the Point of Sale (POS) project and the full adoption of the ASYCUDA model by FY 2023, will positively contribute to the increase in tax collections in the outer years.

Tax Revenue

	2018/19 Actual	2019/20 Actual	Budget Estimate 2020 /21	Estimated Outturn 2020 /21	Budget Estimate 2021/22	2022/23 Projection	2023/24 Projection
Taxes							
Taxes on income, profits, and capital gain	55.2	52.5	54.6	45.6	50.4	52.3	53.4
Taxes on property	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Taxes on goods and services	155.3	160.7	157.9	156.1	167.9	171.1	171.1
Taxes on international trade and transact	32.2	25.0	23.8	24.6	25.7	25.9	26.1
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	243.0	238.6	236.7	226.6	244.3	249.6	251.0

Source: MOF

Taxes on Income and Profits

Taxes on Income and Profits for FY 2022 is estimated at \$50.4 million. It is lower by \$4.3 million and \$2.1 million respectively compared to the original estimate in FY 2021 and the actual FY 2020. The contraction is attributed to the decline in the corporate tax from large businesses, as well as the withholding tax from non-residents due to the negative impacts of COVID19. PAYE income tax is anticipated to hold up at \$19.3 million.

Tax on goods and services

Tax on goods and services is estimated at \$167.9 million in FY 2022, an increase of \$11.8 million from the estimated outturn of \$156.1 million in FY 2021, and higher by \$10.0 million over the original estimate for FY 2021. The current collection from consumption taxes has exceeded expectation which is \$4.0 million higher than the original estimate and \$0.7 million higher compared to last year. This is a welcoming outturn despite the negative impact of Covid-19. These positive outturns were due to sustained remittances, the continuation of the Recognized Seasonal Employment (RSE) scheme despite the global travelling restriction, and the Government Stimulus Package, which have all contributed to boosting of consumer demand. The outlook remains positive.

Tax on Goods and Services

	2018/19 Actual	2019/20 Actual	Budget Estimate 2020 /21	Estimated Outturn 2020 /21	Budget Estimate 2021/22	2022/23 Projection	2023/24 Projection
Taxes on goods and services							
General taxes on goods and services	94.8	95.0	91.7	95.7	99.1	101.3	101.4
Excise Tax	54.7	60.0	61.4	54.3	62.4	63.4	63.4
Taxes on use of goods and on permission to use goods or perform activities	5.8	5.7	4.8	6.0	6.4	6.4	6.4
Other taxes on goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	155.3	160.7	157.9	156.1	167.9	171.1	171.1

*Source: MOF***Trade Tax**

Trade tax is estimated at \$25.7 million in FY 2022, an increase by \$1.9 million and \$1.1 million respectively from the original estimate FY2021 and its estimated outturn. The positive forecast is due largely to expected improvement in collections from Business Import Duties.

Trade tax

	2018/19 Actual	2019/20 Actual	Budget Estimate 2020 /21	Estimated Outturn 2020 /21	Budget Estimate 2021/22	2022/23 Projection	2023/24 Projection
Trade Tax							
Business Import Duties	27.2	25.8	20.6	18.8	21.9	22.9	23.1
Government Import Duties	0.2	0.2	0.4	0.0	0.4	0.4	0.4
Recoverable Charges	0.1	0.4	0.2	0.3	0.0	0.0	0.0
Forex Levy	6.0	4.2	2.2	4.1	3.0	2.2	2.2
Passenger Service Charge	1.4	1.1	0.5	1.4	0.5	0.5	0.5
Total	34.8	31.8	23.8	24.6	25.7	25.9	26.1

*Source: MOF***OTHER REVENUES**

Other revenue is estimated at \$33.5 million in FY 2022. This represents an increase of \$5.1 million from the original estimate FY 2021, largely due to the higher revenue projection from dividends received from PEs, FFA Treaty and sundry revenue. The FY 2022 estimates projects to be higher by \$3.5 million from the estimated outturn FY 2021 due to improvement in the expected collections from the sales of goods and services, however it is lower by \$8.7 million from the actual collections in FY 2020, largely due to decline in transfers from NRBT.

Non-tax Revenue Component

	2018/19 Actual	2019/20 Actual	Budget Estimate 2020 /21	Estimated Outturn 2020 /21	Budget Estimate 2021/22	2022/23 Projection	2023/24 Projection
Other revenue							
Property income [GFS]	10.1	14.5	9.3	12.3	11.6	10.2	9.8
Sales of goods and services	15.3	14.5	14.9	12.4	16.3	15.8	16.2
Fines, penalties, and forfeits	0.7	0.8	1.2	0.7	1.2	1.2	1.2
Voluntary transfers other than grants	0.0	0.3	0.1	0.1	0.0	0.0	0.0
Miscellaneous and unidentified revenue	3.4	12.1	2.8	4.5	4.4	3.0	3.2
Total	29.6	42.2	28.3	30.0	33.5	30.3	30.4

Source: MOF

GRANTS

Grant resources are received from bilateral agreement with foreign Governments, and the assistance from the international organization such as World Bank, Asian Development Bank, EU and JICA. The breakdown of grants by development partners will be covered in Section 6.2. In the table below, grants are classified to current and capital grants. Capital grants are those related to projects and budget support, where Government allocates to finance development initiatives. Current grants reflect money (cash) received as budget support.

Grants

	2018/19 Actual	2019/20 Actual	Budget Estimate 2020/21	Estimated Outturn 2020/21	Budget Estimate 2021/22	2022/23 Projection	2023/24 Projection
Grants							
Current	34.9	37.6	38.5	27.2	45.5	38.5	38.5
Capital	177.6	176.1	209.4	186.0	249.0	178.4	152.2
Total	212.5	213.7	247.9	213.1	294.4	216.8	190.6

Source: MOF

Total Grants is estimated at \$294.4 million for FY 2022 recorded at highest since FY 2014 purposely for COVID-19 recovery and climate change/resilient projects funded by World Bank/International Development Agency (IDA).

The same rationale explains the huge increase in total grants by 37.8 percent, compared to the Actual FY 2020. The large contractions in capital grants contribute to the overall decline in the total Grants projects for the outer years.

TOTAL REVENUE AND GRANTS

The total Revenue and Grants is estimated to hike by \$59.3 million from original estimate FY 2021 to \$572.2 million in FY 2022 and then gradually decline in the outer years. The positive projections largely due to increase in grants assistance anticipated from

Total Revenue and Grants

	2018/19 Actual	2019/20 Actual	Budget Estimate 2020/21	Estimated Outturn 2020/21	Budget Estimate 2021/22	2022/23 Projection	2023/24 Projection
Revenue							
Taxes	243.0	238.6	236.7	226.6	244.3	249.6	251.0
Grants	212.5	213.7	247.9	213.1	294.4	216.8	190.6
Non-tax or Other revenue	29.6	42.2	28.3	30.0	33.5	30.3	30.4
Total	485.2	494.4	512.9	469.7	572.2	496.7	472.0

Source: MOF

development partners towards COVID-19 recovery and other development projects. MDAs considered improvement in enforcement and compliance via collections of tax and non-tax revenues. The huge decline in total grants drives the contractions in total Revenue and Grants anticipated in the outer years.

EXPENSES

Government has been cautious with the expenses given the nature of COVID-19. There was huge pressure on Government given that economic activities dropped. The budget estimate for expenses for FY 2021 was at \$495.8 million. This was redirected to protect the livelihood of the country and to minimise the impact of COVID-19. The estimated outturn for FY 2021 is estimated at \$417.8 million reflecting a 15.7 percent lower than budgeted. The shortfall reflects the impact of COVID-19 measures on some of the Government activities such as travel and procuring of goods.

'By God's grace we are saved through faith'

The total Budget Estimate for FY 2022 is \$515.9 million, showing an increase by 23.5 percent from the Estimated Outturn of FY 2021.

The purpose of the increase is focus on COVID-19 related expense such as

services for repatriation of returned Tongans and to safeguard the livelihood of the country as well as economy recovery. For the two outer years, total expenses are expected to decline further than the Budget Estimate of FY 2022.

Compensation of Employees

Compensation of Employees is still the second to the largest component of Expenses. Its contribution to

total expenses has continued to rise from 30.7 percent to 39.4 percent between FY 2014 to FY 2020. The total Estimated Outturn for FY 2021, is \$155.4 million, indicating a fall of \$11.2 million from the Original Estimate.

This reduction was largely due to delay in the recruitment process to fill both vacant positions and resultant vacancies in respective MDAs. This also includes freezing of recruitment process since the end of March 2020 except for COVID 19 related recruitments.

Compensation of Employees is estimated at \$178.5 million for FY 2022 and is reported to increase further by \$23.1 million from the estimated outturn in FY 2021. The anticipated increase in next year's wage bill is primarily due to recruitment during the year in relation to COVID-19 and annual rewards for staffs' Performance Management System. The outer years is estimated at the same level.

The Social Contributions remain at 10 percent of the Salary and it follows the trend of the Compensation of Employees. The Estimated Outturn for FY 2021 is estimated at \$11.5 million. It is expected to rise to \$13.2 million for the budget estimate FY 2022. The 10 percent contribution of the Government to the Fund has been there for almost a decade.

Use of Goods and Services

Use of Goods and services is still the major component under Expenses. It was estimated at \$261.4 million for FY 2021 which is \$91.7 million more than the FY 2020 actual. The increase was targeted at containing measures of COVID-19 which involves redirecting of expenses to support the objective. However, the estimated outturn for the FY 2021 is estimated at \$209.7 million, an increase by \$40 million compared to the actual of FY 2020 reflecting the amount of activities that were completed.

Expenses

	2018/19 Actual	2019/20 Actual	Budget Estimate 2020 /21	Estimated Outturn 2020 /21	Budget Estimate 2021/22	2022/23 Projection	2023/24 Projection
Expense							
Compensation of employees	134.5	148.7	166.6	155.4	178.5	176.9	176.3
Use of goods and services	151.0	169.7	261.4	209.7	263.6	191.6	188.1
Interest	8.0	8.2	8.8	6.4	8.8	8.5	8.0
Subsidies	0.9	0.8	0.9	0.8	1.3	1.0	1.0
Grants	2.9	3.7	4.3	4.7	4.3	4.3	4.3
Social benefits	25.3	22.3	28.0	17.0	28.8	27.9	27.9
Other expense	29.6	23.4	25.8	23.8	30.6	26.8	26.8
Total	352.2	376.9	495.8	417.8	515.9	436.8	432.3

Source: MOF

Compensation of Employees

	2018/19 Actual	2019/20 Actual	Budget Estimate 2020 /21	Estimated Outturn 2020 /21	Budget Estimate 2021/22	2022/23 Projection	2023/24 Projection
Compensation of employees							
Wages and salaries	123.4	137.6	153.8	144.0	165.3	163.5	163.0
Social contributions	11.2	11.1	12.8	11.5	13.2	13.3	13.3
Total	134.5	148.7	166.6	155.4	178.5	176.9	176.3

Source: MOF

The budget estimate for use of goods and services for FY 2022 is about \$263.6 million. This is an increase by \$53.9 million from the estimated outturn FY 2021. This reflects an increase in the planned activities and awareness in terms of communications, procuring of goods and services, and hire of machinery in relation to COVID-19.

Interest Payments

Interest payments have been slowly increasing from \$7 million to \$8 million between FY 2014 to FY 2019. The

interest rate payment on external loan remains the major component. The

Interest Payments

	2018/19 Actual	2019/20 Actual	Budget Estimate 2020 /21	Estimated Outturn 2020 /21	Budget Estimate 2021/22	2022/23 Projection	2023/24 Projection
Interest							
To non-residents	6.3	6.3	6.4	3.3	6.9	6.6	6.1
To residents other than general governm	1.7	2.0	2.4	3.1	1.9	1.9	1.9
Total	8.0	8.2	8.8	6.4	8.8	8.5	8.0

Source: MOF

interest payments estimated for FY 2021 is \$8.8 million, indicating an increase of \$0.6 million from the actual of FY 2020.

However, the estimated outturn is recorded \$6.4 million, a fall by \$2.4 million, representing a reschedule of the loan repayment from the Peoples Republic of China. This has allowed more fiscal space for the Government due to COVID-19. The estimate for FY 2022 is at \$8.8 million. The outer years will be slightly as the same level.

Subsidies

There are two main components of subsidies which are subsidies to Public Corporations and Private Corporations. The only active subsidies at the moment are the subsidies to Private Enterprises such as the assistance through Development Committees which increased by \$0.4 million from the original estimate of FY 2021 to \$1 million estimate of FY 2022 and is expected to hold up in the outer years.

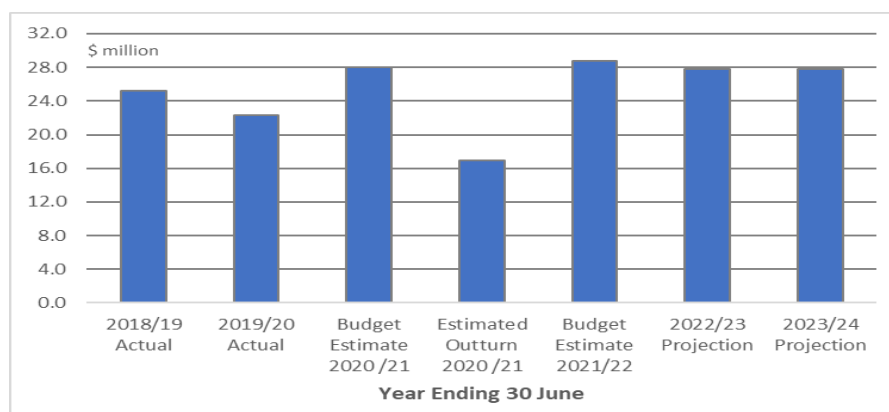
Grants

Grants represents mainly the contributions and subscriptions to regional and international organisations. The total subscriptions estimated for FY 2021 was \$4.3 million and it is estimated that \$4.7 million will be paid by end of June 2021. The estimate for FY 2022 is \$4.3 million and same for the outer years.

Social Benefits

The payment to Social Benefits was affected by COVID-19

measures. The activities in schools such as prize giving ceremonies and sending of students on scholarships were affected. This



Source: MOF

has reflected a drop in spending from the budget estimate of \$28.0 million to \$17.0 million in the estimated outturn for FY 2021.

The estimate of \$28.8 million for FY 2022 assumes that expense on social benefits will be back to normal and maintain going forward to the outer years.

Other Expenses

The total Budget Estimate FY 2022 is \$30.6 million, indicating an increase by \$6.9 million from the Estimated Outturn FY 2021 as well as an increase by \$4.9 million from the original estimate of FY 2021. The decrease in the estimated outturn FY 2021 reflects mainly from the reduction in the cost of development projects.

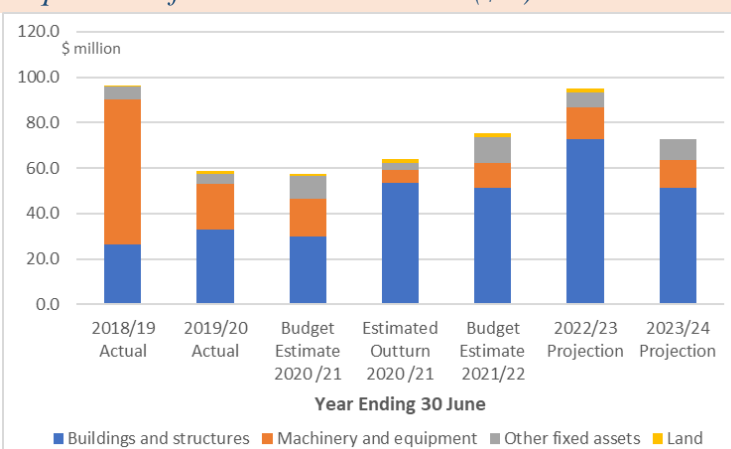
Acquisition of Non-Financial Assets¹¹ (payments of capital items)

Government continues to focus on long term investment due to the nature of these assets and their contribution to the economy. Government budgeted around \$57.3 million net for buildings, machinery and other assets for FY 2021. The estimated outturn for the FY 2021 is expected at \$63.8 million be higher by \$6.6 million than original estimate. Government has initiated to expand capital investment as part of its strategy to boost the economy during the economic downturn due to COVID-19 impact.

The total acquisition of Non-financial assets in FY 2022 is about \$ 75.2 million as compared to estimated outturn of \$63.8 million in FY 2021. The significant variance is attributed to major construction activities aiming to maintain employment.

Projects planned for the medium term include the Fanga'uta Lagoon bridge, the new Parliament building and other projects which contribute to increasing the expected budget for FY 2023 to \$ 95.1 million.

Acquisition of Non-Financial Assets (\$m)



	2018/19 Actual	2019/20 Actual	Budget Estimate 2020/21	Estimated Outturn 2020/21	Budget Estimate 2021/22	2022/23 Projection	2023/24 Projection
Fixed assets							
Buildings and structures	26.6	32.9	30.0	53.3	51.2	72.6	51.2
Machinery and equipment	63.8	20.0	16.7	5.9	10.9	14.3	12.3
Other fixed assets	5.3	4.4	9.8	3.1	11.5	6.5	9.0
Land	0.5	1.3	0.8	1.6	1.6	1.6	0.0
Total	96.1	58.7	57.3	63.8	75.2	95.1	72.6

Source: MOF

¹¹ The amount discussed here are residuals after deducting the selling of assets from the cost of acquiring new assets. Receipts from selling of assets is usually insignificant to cause a different picture from the net value.

FINANCING

Donor funds continue to support Government budget and in financing an estimated outturn deficit of \$11.2 million.

The fiscal deficit estimated for FY 2022 is \$18.8 million. The financing options first and foremost is to seek additional grants from development partners. If grants are not forthcoming then a concessional loan of TOP\$30 million from IMF will be requested. Draw down \$5.8m from cash reserves, Rolled over domestic bond of \$15.9 million will help with the financing option.

	2018/19 Actual	2019/20 Actual	Budget Estimate 2020 /21	Estimated Outturn 2020 /21	Budget Estimate 2021/22	2022/23 Projection	2023 Proje
Net Acquisition Of Financial Assets And Liabilities (Financing)	(36.8)	(59.7)	37.4	11.2	18.8	35.2	
Financial Assets	(23.4)	(61.5)	20.1	(4.8)	5.5	54.9	
Domestic	(23.4)	(61.5)	20.1	(4.8)	5.5	54.9	
Currency and deposits	(16.3)	(61.7)	19.8	(5.0)	5.8	55.2	
Loans	(7.1)	0.2	0.7	(0.2)	(0.7)	(0.7)	
Shares and other equity	-	-	(0.4)	0.4	0.4	0.4	
Financial Liabilities	(13.4)	1.9	17.2	15.6	13.3	(19.6)	
Domestic	0.0	12.9	20.9	0.1	0.9	0.9	
Loans	15.2	31.9	35.9	15.1	15.9	15.9	
Repayments	15.2	19.0	15.0	15.0	15.0	15.0	
Foreign	(13.4)	(10.9)	(3.7)	15.5	12.4	(20.6)	
Loans	-	-	19.0	22.6	30.0	-	
Repayments	13.4	10.9	22.7	7.1	17.6	20.6	

Source: MOF

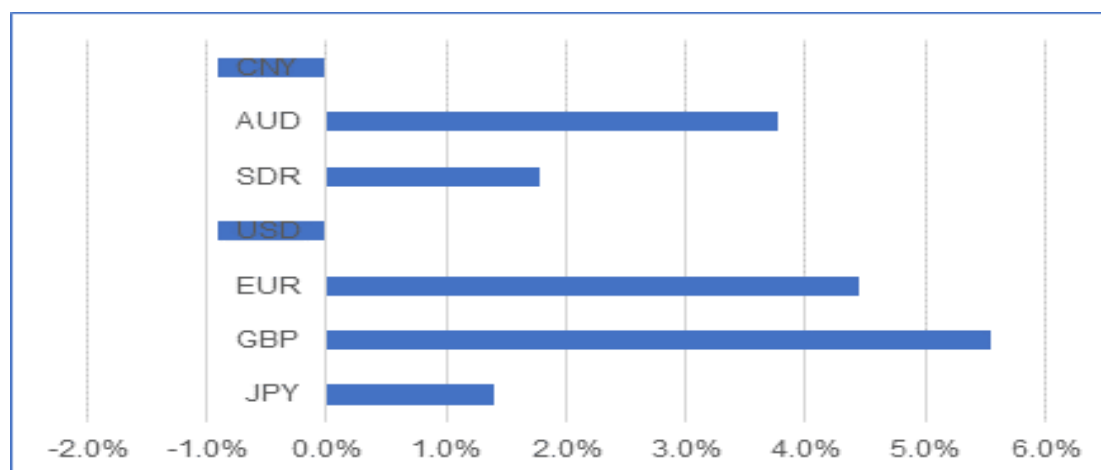
8.2 Debt Performance

Currency Denomination of External Debt

The main outstanding currency denomination of the external debt as at 30 June 2021, as indicated in Figure 6 is the Chinese Yuan Renminbi (CNY) at \$245.7 million (55 percent) and the Special Drawing Rights (SDR) and other currencies at \$201.4 million (45 percent).

The changes in value of the Pa'anga against the borrowing currencies (including SDR currency components) during June 2020 to June 2021 is shown in Figure 4.

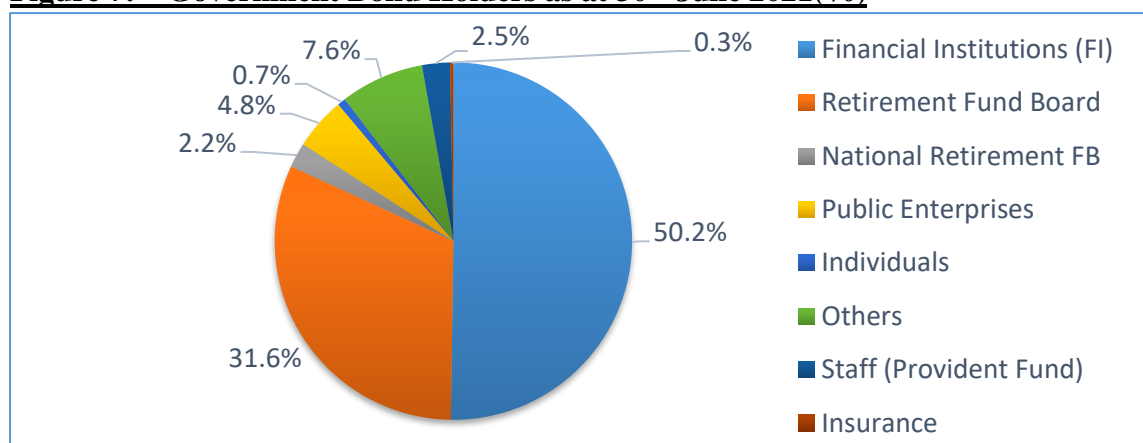
Figure 6: FC/TOP Exchange rate Fluctuations as at 30th June 2021



Domestic Debt

Total Domestic debt at 30 June 2021, is estimated at \$67.3 million (5.4 percent of GDP); consisting entirely of Government bonds on issue. The shares held by different bond holders are shown in Figure 7, with Financial Institutions accounting for 50.2 percent.

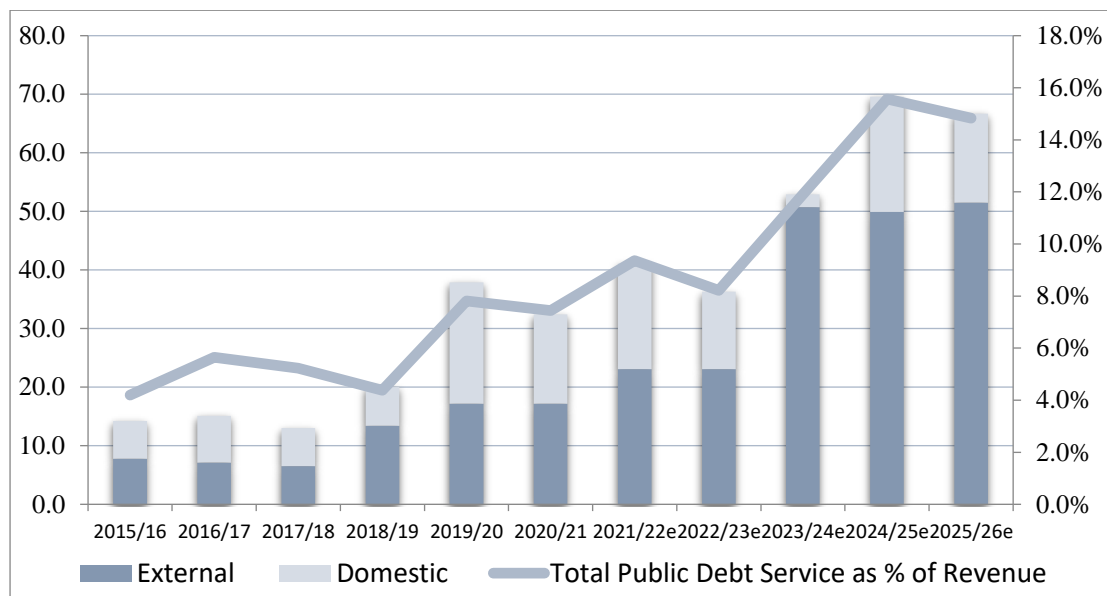
Figure 7: Government Bond Holders as at 30th June 2021(%)



Debt Service

Total debt service (expenditure) for the year ended 30 June 2021 is estimated at \$25.0 million comprising \$7.8 million (31 percent) external and \$17.2 million (69 percent) domestic. This is a decrease from \$29.9 million in June 2020 due mainly to the DSSI during FY 2021. The total debt service is estimated as equivalent to 2.0 percent of the GDP and 7.8 percent of recurrent revenue and 6.9 percent of recurrent expenditure.

Total Public Debt Service FY 2016 – 2026 (including actual and projected)



This reflects both the original and extended DSSI in September 2020 and March 2021. However, debt service increases significantly as repayment for Nuku'alofa CBD commences in FY 2024. The domestic debt service is based on current bond maturity (principal) at average term of 6 years and at weighted average (interest) of 3.2 percent on the total bonds on issue (\$67.3 million). Further domestic borrowing in the medium term will be projected on similar terms.

On-lent Debt and Guaranteed Debt**Table 16: On lent Loans as at 30th June 2021**

Borrowers	June - 21 est. (\$m)
TDB	0.40
Seastar Fishing Co. Ltd	3.65
Talamahu Market Co.	1.31
TAMA	1.58
TBC	2.00
Nuku'alofa CBD Projects	
Royco Amalgamated Co. Ltd	2.04
MF Taumoepeau Ltd.	7.16
O.G. Sanft Ltd	10.25
City Assets Ltd	6.76
Tungi Colonnade Ltd	16.57
Fisheries Exports Development Fund	0.23
Agricultural Managed Fund	0.94
TOTAL	52.91

Total on-lent debt as at 30 June 2021 due to Government from various public and other enterprises is estimated at \$52.9 million¹² (4.3 percent of GDP). The increase of \$3.3 million in the outstanding on-lent debt between June 2020 and June 2021 is mainly due to the GLRF and Micro loans for women.

Total debt service from on-lent loans at 30 June 2021 is estimated at \$0.74 million. The on-lent loan repayments consist of repayments received from Tonga Development Bank of \$0.40 million (54.1 percent), Talamahu Market Company Ltd. \$0.18 million (24.3 percent), and Others of \$0.16 million (21.6 percent).

Total Government guaranteed loans, as at 30 June 2021 are estimated at \$17.5 million. The Government is providing guarantee for the Roads Improvement project loans from TDB at \$15 million, and Lututai Airlines Insurance Premium, estimated at \$2.5 million and decline in guaranteed amount for 5 years.

Summary of Debt Ratios

Table 18 illustrates the actual debt sustainability indicators against the various targets. The Net Present Value (NPV) of debt ratios against other macro data remain within the threshold including exports and remittances, for the next 3 years. These estimates are based on the latest foreign exchange rates in March 2021 and do not account for any future fluctuations against the Pa'anga.

Table 17: Sovereign Debt Sustainability Indicators of IMF/Tonga

Indicators	(IMF) Tonga Target %	2020/21	2021/22	2022/23	2023/24
		Debt Indicator % should be < Target %			
NPV of external debt as:					
% of GDP	40%	36%	33%	30%	27%
% of GDP & remittances	36%	28%	26%	24%	23%
% of exports & remittances	120%	111%	106%	105%	97%
% of government revenues	250%	119%	133%	98%	92%
Debt Service as:					
% of exports & remittances	16%	6%	10%	14%	14%
% of revenues	20%	7%	12%	13%	13%

¹² Includes Agriculture and Fisheries Loans to private sector and Gita Recovery Loan Fund

8.3 Monetary Policy Outcomes

Inflation

Tonga's annual headline inflation continues to remain well below the percent reference rate in the year to December 2020. At the end of the FY 2020 annual inflation recorded a negative growth of 1.4 percent, compared to 1.8% and 3.0% for June 2019 and 2018 respectively. Annual inflation remained in negative territory for five months before recovering in December 2020 by 0.3%. However, this is

still lower compared to a 1.2% growth in December 2019. Over the year to December 2020, the annual inflation averaged at -0.3% compared to an average of 1.2% in the previous year.

Domestic prices fell by 1.1% at the end of the FY 2020. This was largely driven by the fall in prices of electricity, gas and other fuels in line with the decline in global oil prices. Excess supply of food items and kava Tonga in the market also contributed to the lower domestic prices. At the end of the FY 2020, local prices averaged at -1.7% compared to 5.6% in the FY 2019, reflecting improvement in the supply of local food items, as the sector recovers from previous cyclones and favourable weather conditions.

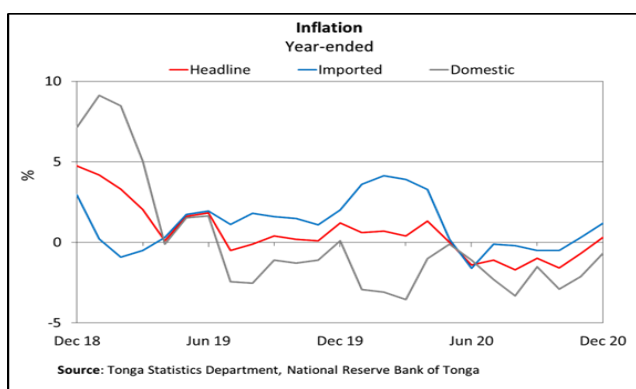
Meanwhile, imported prices for the FY 2020 remained relatively low at an average rate of 1.9% compared to 2.7% in the previous financial year. This is largely due to lower fuel prices, resulting from weaker demand in the global oil market, as countries impose restrictive measures on movements and transportation, amidst the COVID-19 pandemic.

Imported prices slowly picked up in November 2019 and peaked at 4.1% in February 2020, before decline and reaching a deflation of 1.5% in June 2020.

In the first half of the FY 2021, inflation fell consecutively in the first five months, largely driven by lower local prices. This is a similar trend recorded in Fiji and Samoa. The effect of lower global oil prices has flowed through, resulting in the decline of electricity tariff, effective on 1st July, 2020 coupled by the recovery in the agricultural sector, particularly for root crops, resulting in lower local food prices.

The lockdown of Tonga's international borders has also encouraged households to plant more crops in preparation for the COVID-19 crisis, contributing to its abundant supply in the local market. However, imported prices consistently fell since July 2020, before rising in November and December 2020 by 0.3% and 1.2% respectively, attributed to higher food prices and tobacco.

With the negative impacts of COVID-19, the Government has exempted consumption tax, excise tax, and customs duty, from all imports of food items and personal consumer goods that are not for commercial purposes, effective in July 2020 until 31st December, 2020. This aims to assist households during this time of financial difficulties.

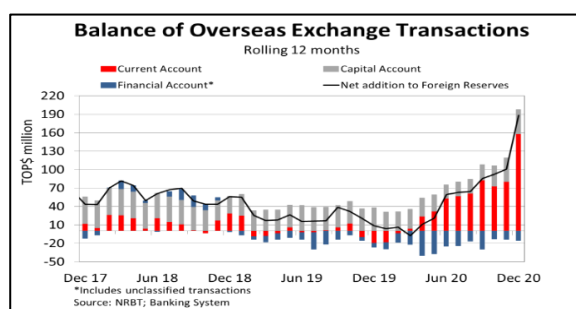


Moreover, the Government continues with its efforts against Non-communicable diseases (NCDs) and towards a healthy Tonga, through the imposition of new excise taxes on tobacco, mutton flaps, and older model of motor vehicles, beginning in FY 2021. Duties imposed on fuel products also increased with effect from 1st July, 2020, which may contribute to higher imported prices of petrol and diesel in the near future.

The uncertainties surrounding COVID-19 still remains, causing disruptions on trade and supply chains, delays in shipments, and additional surcharges for quarantine measures, thus contributing to higher imported prices. The global oil price has slowly recovered, as economies start to ease restrictions on travel and transportation, driving demand in the oil market. These movements may flow through, to a steady rise in inflation in the near future. Given these developments, the Reserve Bank projects inflation to gradually pick up in the near term, however this is still expected to remain below the 5% reference rate throughout 2021. Tonga's vulnerability to natural disasters poses a downside risk to the outlook.

Balance of Payments (BOP) Performance (based on Overseas Exchange Transactions)

The balance of the Overseas Exchange Transactions (OET) recorded a substantial overall surplus of \$188.1 million, over the year to December 2020, compared to a surplus of \$8.9 million, over the year ending December 2019. This was attributed to net inflows in the current and capital accounts.



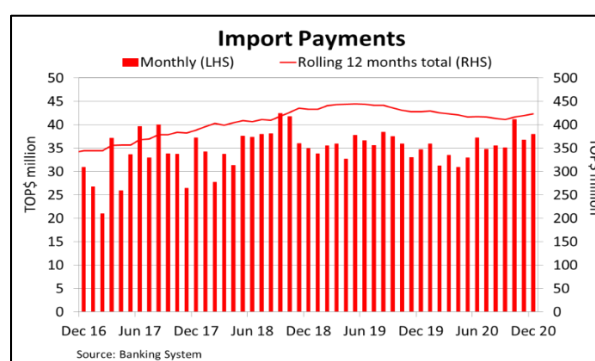
Current account

The current account surplus of \$158.2 million, for the year ending December 2020, is an improvement from the \$19.6 million deficit recorded in the previous year. The surplus balance stems from net receipts in the transfers and income accounts, and the lower merchandise trade deficit.

The **transfer account** surplus rose significantly by 53.8% (\$193.2 million), over the year, to \$552.3 million in December 2020. This was due mostly to higher official transfer receipts of donor funds, to support Tonga's recovery from Cyclone Gita and Cyclone Harold, combatting COVID-19, and remittances.

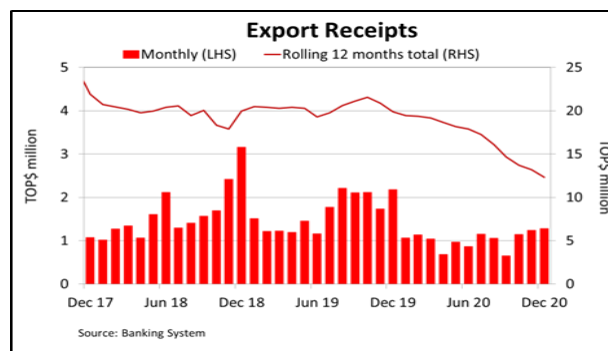
Import payments declined over the year to December 2020 by 1.0% (\$4.4 million), reflecting the impact of COVID-19 on the domestic economy, weakening aggregate demand and consumption.

Payments for imports of oil and wholesale & retail trade declined over the year, coinciding with the lower global oil and commodity prices during the year. Majority

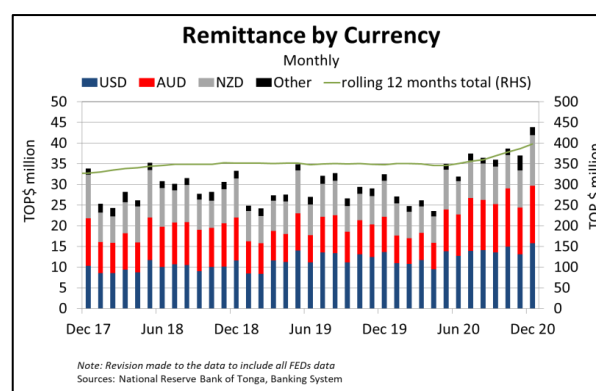


of the import transactions were paid to New Zealand, although majority of the payments are paid in US Dollars.

Export receipts fell over the year to December 2020 by 38.1% (\$7.6 million), to a total of \$12.3 million as proceeds from all categories declined over the year. Receipts from agricultural exports accounted for 52.0% of the total proceeds, while fisheries/marine exports accounted for only 38.3%, and the remaining 8.9% are from various other exports. The volume of agricultural exports fell over the year by 16.3% (\$1,952.2 tonnes), primarily driven by squash exports despite higher exported volumes of root crops. This coincides with the lower agricultural export receipts, which fell by 26.1% (\$2.3 million) over the year. The volume of marine exports also decreased over the year, supporting the 51.3% (\$5.0 million) decline in marine export proceeds. The closing of the international border severely impacts the exports of fresh fish via airfreight.



Remittance receipts increased significantly over the year to December 2020 by 14.3% (\$49.9 million), to a total of \$398.0 million. Despite the negative impacts of the COVID-19 on our major source remitting countries, Tonga's remittance continued to hold up. New digital products for transfer of money online supports the growth in remittance. Those who usually hand carry cash while travelling, are now also transferring funds as



remittance, due to the closure of the border. It is also suspected, that non-commercial exporters may also be receiving their proceeds as remittance. Remittances, as a share of Gross Domestic Product (GDP), is around 41.3%, an increase from the 33.9% in the previous year.

Foreign Exchange Dealers (FEDs) remained as the preferred channel for remittances, of which 86.0% of total remittances are transferred via FEDs. Majority of remittance receipts are denominated in US Dollars, representing 39.0% of the total remittance receipts. Australian dollars follow with 30.6% and New Zealand Dollars with 25.4% share of total remittance receipts.

The **services account** recorded a \$0.5 million deficit, which is lower compared to the \$24.1 million surplus in December 2019. This reflects the impact of the border lockdown on tourism services over the past year.

Travel receipts declined over the year by 67.8% (\$91.8 million) which outweighed an increase in other services by 18.2% (\$12.4 million), mostly receipts from insurance claims following cyclone Gita in 2018, and telecommunication services. Services payments also declined over the year by 30.5% (\$54.8 million) for services such as airfares, professional & management, freight and government services.

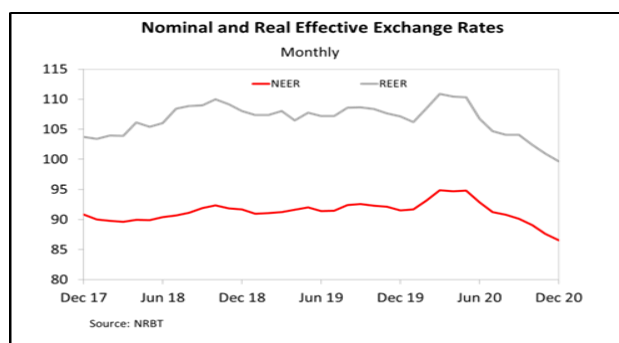
The **capital account** recorded a higher surplus of \$39.7 million compared to the \$38.0 million surplus recorded in December 2019. This reflected receipts mainly for reconstruction projects of houses, destroyed by tropical cyclones Gita and Harold.

This is in addition to the decline in capital account payments, as both official and private payments for investment projects abroad, fell over the year to December 2020.

Meanwhile, the **financial account** deficit widened by \$0.3 million from the \$9.5 million deficit in the previous year. This was mostly due to higher outflow of other investments, mostly for interbank transfers.

Exchange Rates

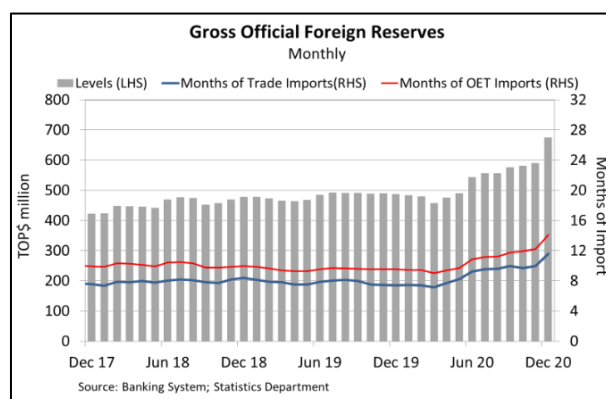
The currencies of Tonga's major trading partners, such as the AUD, NZD, FJD, and EUR, strengthened against the Tongan pa'anga over the year to December 2020. Consequently, the nominal effective exchange rate index (NEER) declined over the year by 4.9%. Similarly, the real effective exchange rate (REER) index also declined over the year by 7.5%, indicating an improvement in Tonga's international competitiveness with trading partners, benefitting export proceeds and remittances receipts.



The current exchange rate basket maintains the value of Tonga's foreign assets and contributes to maintaining the foreign reserves at a comfortable level. Due to the impacts of the COVID-19 pandemic, most Central Banks opted to ease their monetary policies by reducing their policy rates. The unstable state of the exchange rate of our major trading partner currencies continues, further contributing to the depreciation of the TOP.

Foreign Reserves

Gross official foreign reserves rose substantially over the year to December 2020 by \$188.2 million, to a record high of \$675.6 million, equivalent to 11.5 months of imports of both goods and services. This is well above the minimum threshold of 3 months of imports cover. The annual growth is attributed to receipts of donor funds, to support Tonga's recovery from Tropical Cyclones Gita and Harold, assist with preparations for COVID-19, and the consistent high inflow of remittances. Foreign reserves are held mostly in USD, AUD, and NZD.



The Reserve Bank expects foreign reserves to remain at comfortable levels, above 3 months of imports cover in the medium term. This is to be sustained by expected receipts of budget support, donor funds for infrastructure projects, and additional financing to assist with recovery from COVID-19.

The delays on implementation of infrastructure projects pose a risk to the forecast. Additionally, a negative outcome from Tonga's Mutual Evaluation report may hinder the country's correspondent banking relations, international trade, credibility for financial support from donor partners, and consequently foreign reserves.

The Reserve Bank continues to closely monitor the level of foreign reserves, given the debt repayment to the EXIM Bank of China, and the expected drawdowns on project funds for implementation of infrastructure projects.

Government Bonds

As the Registrar of Government bonds, 4 bond series of a total of \$16.96 million matured in 2020 and were rolled over, and 1 bond series of \$1 million matured and was paid out. Of the rollover bonds, 3 were oversubscribed and 1 was undersubscribed. This indicates there is still a strong demand for investment in Government bonds, due to lower interest rates offered on bank deposits.

However, 2 new Government bonds were issued in March (\$10 million) and May 2020 (\$7.46 million) and both were undersubscribed, reflecting market concerns amidst the impact of COVID-19. The Banks and Retirement funds hold the majority of the Government bonds. At the end of February 2021, Government Bonds totalled \$67.35 million.

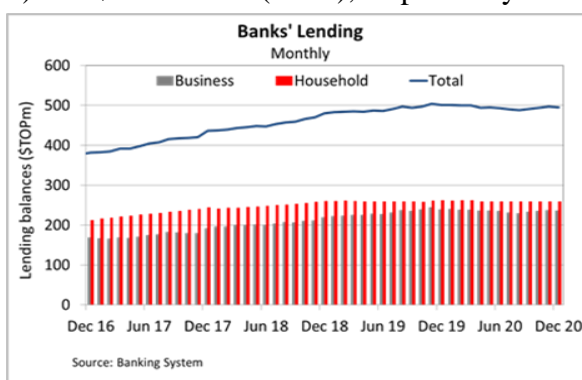
A total of \$9.24 million bonds will mature in 2021, and \$15 million in the year 2022. The electronic transfer of principal and interest on maturing bonds continued, with 60% of the bondholders preferring direct credit to their nominated bank accounts, while 40% still prefer payments by bank cheque. The issuing of more government bonds would further assist in developing the financial markets, as well as strengthening the monetary policy transmission.

Lending Balance

Credit growth slowed down over the year to December 2020, reflecting the high uncertainties of COVID-19 impacting both the banks' willingness to lend further, and businesses and households' appetite to borrow. The total bank lending fell by \$5.4 million (1.1%) to \$495.4 million, compared to a growth of \$20.9 million (4.4%) last year. Lending to both businesses and households decreased by \$2.7 million (1.1%) and \$2.6 million (1.0%), respectively.

The lower lending to businesses (including GDL) was underpinned by less loans offered to public enterprises and businesses, within the trade, manufacturing, and utilities sectors. Similarly, household loans declined primarily for other personal loans.

Government Development Loans (GDL) as at the end of December 2020 was a total of \$8.35 million (around 46% of total funds), of which the majority was for the agriculture (50%), education (16%), and the fisheries sector (14%). An additional \$5 million was injected to the GDL scheme upon its renewal in October 2020, to assist with recovery of the tourism and fisheries businesses that are affected by COVID-19 and TC Harold.



This leaves the GDL account with \$9.86 million remaining to be lent out mostly for the Tourism, Fisheries and Agricultural sectors. Despite the increased allocation, the uncertainties surrounding the global pandemic may be discouraging borrowers from accessing the fund.

The bank's total loans to deposit ratio (excluding GDL) declined over the year to December 2020 from 81.0% to 69.2%, which is below the 80% minimum loan to deposit threshold required by the Reserve Bank. Liquidity in the banking rose strongly by \$117.8 million to \$422.8 million over the year to December 2020.

This resulted mainly from a \$84.7 million (53.8%) increase in the commercial bank's Exchange Settlement Accounts (ESA), which are mostly net sales of foreign exchange from the commercial banks to the Reserve Bank.

The NRBT continues to expect credit growth to remain subdued in the near term, underpinned by the extreme uncertainties of the COVID-19 pandemic, weakening investment appetite, and softening aggregate demand.

Nonetheless, the current accommodative monetary policy stance encourages banks to utilize the excess liquidity in the banking system, for prudent lending to support economic recovery and growth.

Deposit Balance

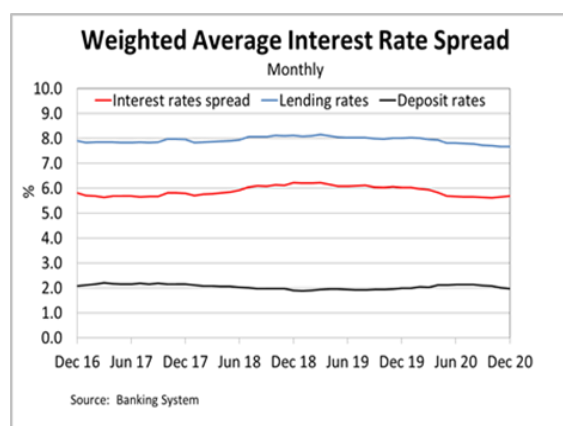
The total banks' deposits increased over the year to December 2020 by \$96.4 million (15.9%) to \$703.9 million. All three categories of deposits rose. Demand deposits rose the most, by \$49.2 million (19.4%), due mainly to higher deposits made by public enterprises, non-profit organisations (churches), and businesses.

Time deposits followed, with an increase of \$26.8 million (10.7%), contributed mainly by retirement funds, central government and non-profit organisations (churches). Furthermore, savings deposits grew by \$20.5 million (19.6%) as individuals tend to save more and spend less.

The higher demand deposits coincided with the increased demand deposits rates over the year. The rise in remittances and the disbursements from the Government fiscal stimulus package also supports the growth in deposits.

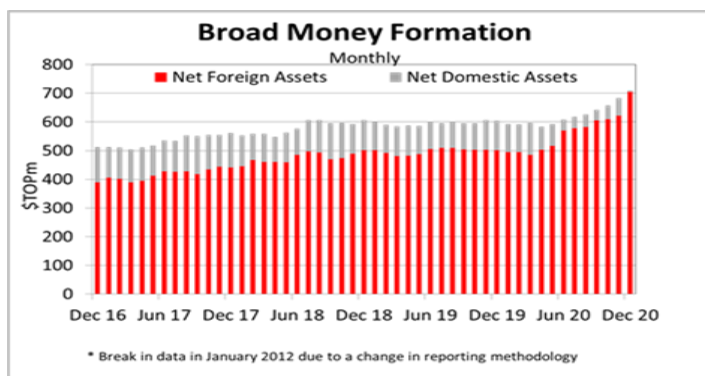
Interest Rates

The weighted average interest rate spread narrowed over the year to December 2020, by 32.68 basis points to 5.70%. The weighted average lending rates fell by 33.85 basis points, due mainly to lower lending rates offered to businesses in the mining & quarrying, construction, and utilities sectors, and household for other personal loans. The weighted average deposit rates declined also by 1.17% basis points as both term and savings deposit rates decreased and offsets the higher demand deposit rates.



Broad Money

Broad money rose over the year to December 2020, by \$105.3 million (17.5%) to \$707.5 million. The receipts of budget supports and donor funds to support Tonga's recovery from COVID-19 and TC Harold, pushed foreign reserves and net foreign assets higher. On the other hand, the lower net domestic assets were a result of higher government deposits from the receipts of these grants.



Banking System's Performance

The total assets of the banking system increased by 11.9% (\$0.1 million) to \$991.2 million over the year ended December 2020. This was largely attributed to a 39.8% rise in balances with depository institutions, mostly from the Exchange Settlement Accounts of the commercial banks held at the Reserve Bank during the year. In addition, Government Bond and non-financial assets also rose by \$10.0 million (39.1%) and \$2.1 million (3.7%) respectively.

On the other hand, negative growth in total loans during the year, was recorded with a decline of 1.0% (\$5.0 million), driven mainly by decline in lending to public enterprises and private sectors. Despite the negative growth, there were still some sectors with positive lending growth, mainly to private business sectors over the year.

Total liabilities also increased by 13.8% (\$96.2 million), which is mostly due to a 15.9% (\$96.4 million) rise in total deposits, reflecting churches' annual donations, retirement fund deposits, and government fund injections over the year.

The total banking system remained profitable over the year to December 2020 with strong liquidity and capital positions. However, this profitability is still lower than the profit recorded in the same period of last year. The Return on Assets (ROA) was at 2.2% and the Return on Equity (ROE) was 7.6%, which are both lower than the ROA of 3.7% and ROE of 13.5% recorded last year. This was triggered by higher loan loss provisions, expenses raised over the year as banks prudently ensure that they are ready to absorb potential losses, from the prolonged COVID-19 pandemic since early 2020.

The net interest margin slightly decreased to 3.6% in December 2020 from 4.0% in the same period last year, due mainly to a fall in interest income, owing to the decline in credit growth, and the delay in interest payments from the Covid-19 moratorium relief packages extended to customers, while the cost of funds slightly increased to 1.8% from 1.7% in December 2019.

The banks' profitability will continue to be impacted, given the extensions of the Covid-19 moratorium relief packages for another 6 months, by one of the big banks to its customers. This includes repayment holidays of either interest payment only or waiving both interest and principal repayments for 3 months up to 6 months. There were also other measures to assist customers, such as reducing interest rates and waiving of loan restructure fees and charges. By April 2021, a few customers would have benefited from 1 year of the Covid-19 moratorium relief package.

After April 2021, Banks will review the capacity of these customers to repay their loans, and rate these loans accordingly. These exposures may fall into non-performing loans, and may impact banks' capital position and profitability.

The banking system's capital position remained strong, the risk-weighted capital ratio was at 30.5% in December 2020, higher than the 28.8% in December 2019, and is still comfortably above the Reserve Bank's minimum requirement of 15%.

The improved capital position is due to the subdued credit growth contributing to the lower risk-weighted assets, whilst maintaining profitability level over the year. In addition to the higher eligible capital, banks continued to transfer their profits to retained earnings in January of every year.

Although capital is expected to remain strong, with risk weighted capital ratio to be maintained at above 30% up to June 2021, there are, however, downside risks from a further deterioration in the banking system's asset quality, and foreign banks' dividend payments to their respective head offices, and domestic banks to their shareholders, which will be assessed on a case-by-case basis.

Whilst the latter can be deferred to assist in cushioning banks' capital position, the former will have to be borne by banks, in order to manage the risks of loss arising for non-performing loans.

Banking system liquidity during the COVID-19 is expected to be utilised by banks, as the loan to deposit ratio is expected to slowly increase towards 80% in June 2021, on the premise that loan growth may resume whilst deposit, on the other hand, decline.

The overall quality of the bank's assets continued to be monitored during the year. Total Non-Performing Loans increased over the year to December 2020, by 12.4% (\$2.0 million) to \$18.1 million. This represented 3.7% of total loans compared to 3.3% a year ago.

The increase in the proportion of non-performing loans to total loans, was driven mainly by the worsening of the agricultural sector (as lower proceeds due to poor squash season) in addition to housing loans and lower credit growth over the year. More than 70% of the non-performing loans are private individual loans for housing, which have become non-performing, owing to reasons such as loss of jobs, migration and retirement. The remaining 30% are non-performing business loans, mostly in agriculture, and professional and other services.

Provisions against loan losses increased over the year by \$8.8 million to \$23.7 million, due mainly to an on-going quarterly review of the commercial banks' portfolios, to ensure that adequate provisioning is in place. The total coverage ratio of 130.9% compared to 92.5% last year, shows that banks' non-performing loans are well covered by provisions.

The outlook for non-performing loans, as a portion of the banking systems' total loans, is forecasted to be above 10% in June 2021, on the assumption that some of the large businesses, currently under the relief packages (mainly tourism and transportation sectors) may not be able to recover when the relief packages expire.

The Reserve Bank is currently in the implementation phase with the Tonga National Payment System (TNPS). TNPS objective is to provide an efficient, sound, and safe platform to all its participants, since it is now in the testing phase, and has been operating live, with the manual system from the Reserve Bank, since October 2020.

The Reserve Bank monitors TNPS operations and functions performed by its participants (Commercial Banks), especially the clearing of cheques daily. The TNPS will contribute to real-time updating of participants' account balances, statements, and reconciliations.

The Reserve Bank continues with its approach to improve financial sector supervision, by establishing a stress testing framework, introducing new Prudential Statements for prudent management of operational risks and cybersecurity risks in the banking operation, and effectively supervising credit information system for the banking system in Tonga. The role of the Supervision team is to be strengthened, to include the offsite and onsite supervision of money laundering and terrorist financing risks.

Supervision of Non-Bank Financial Institutions (NBFIs)

The continuous development of an adequate legal framework, for regulating and supervising non-bank financial institutions, is a priority for the Reserve Bank. This is to fulfil its objective of promoting a sound and efficient financial system, as well as protecting its financial consumers. Non-bank financial institutions play an essential role in driving inclusive economic growth, although it accounts for only a small portion, it may pose a risk to the overall financial system.

However, the establishment of a robust supervisory framework, would mitigate such potential risks, and ensure that there is a safe and sound alternative to commercial bank, that can serve specific segments of the economy, which are unable to access financial services in larger financial institutions.

The Reserve Bank continues to monitor and oversee the conformity and operations of all the fourteen (14) licensed foreign exchange dealers, as required by the Foreign Exchange Act 2018. Since the banks started de-risking, the overseas bank accounts of Foreign Exchange Dealers in Tonga were closed by their correspondent banks.

The Reserve Bank, to facilitate the flow of remittance, upgraded two licensed foreign exchange dealers from Type B (Inward remittance only) to license Type A (Inward and outward remittance) and, at the same time, ensure their compliance with all legal and regulatory requirements, especially AML/CFT requirements.

This includes on-going interaction with authorized foreign exchange dealers, such as technical meetings, quarterly spot checks, providing training and advisories on the importance of improving and strengthening of their AML/CFT compliance status, in order for the banks to retain their accounts.

A negative outcome from Tonga's AML Mutual Evaluation report, may result in more foreign exchange dealers' accounts to be closed by banks.

Provisions of the Microfinance Act 2018 gives the Reserve Bank of Tonga the authority to license Microfinance Institution. South Pacific Business Development (SPBD) is the only microfinance institution in Tonga that was licensed on 24th February, 2020. The Reserve Bank continues to act in its overarching supervisory role, through consistently assessing and monitoring of SPBD's financial reports and performance, in accordance with the Microfinance Act. This is to ensure SPBD is financially sound and continues to serve its customers. In addition, by licensing this microfinance institution, it will also enable the NRBT to assess the level of household access to financial services, for policy formulation to promote financial inclusion.

The Reserve Bank commenced implementing the Moneylenders Acts 2018 by registering moneylenders. More than 120 moneylenders were registered to the Reserve Bank with their details for licensing. Around 90% of the total moneylenders are from Tongatapu and the rest is from the outer islands such as Vava'u, Ha'apai and 'Eua. However, some of the moneylenders who have registered are to be exempted, from moneylender licensing, because the financial services they provided, does not fully meet the definition of moneylending business.

The comments from stakeholders on the Insurance Bill 2018 is being reviewed, and a consultation meeting on these comments, with the relevant stakeholders, is to be held before the end of March 2021.

The Retirement Fund Bill is currently with the stakeholders for comments, due to the Reserve Bank on 19th March, 2021. In the meantime, the Reserve Bank continues to collect monthly reports from the two (2) retirement funds, and quarterly reports from the four (4) insurance companies.

The purpose of collating this information is to understand these institutions and the business that these NBFIs are conducting, and also to monitor their financial positions and performance, to ensure the stability of the financial system.

The Reserve Bank also drafted a Credit Union Bill that has been passed on to the Ministry of Finance. This is with the intention that Government will assist with the development of Credit Unions, that can encourage savings and promote cheaper lending in rural and remote islands, where there is no bank.

The Ministry of Trade and Economic Development currently administer the Credit Union Act 1978, which is intended to be repealed, and replaced with this new Credit Union Bill.

Financial Inclusion Initiatives

The Reserve Bank continued to carry out its function in promoting financial inclusion in Tonga, through its financial inclusion's key objectives, to enhance the access to finance for individuals, and Micro, Small and Medium Enterprises (MSMEs).

Over the year to June 2020, both banks and non-banks reported that the total MSMEs' outstanding loans fell by \$3.0 million (11%) to T\$25.4 million. This was mainly due to a decline in outstanding loans to other services, agriculture, and tourism sector.

The decline was predominantly driven, by the fall in banks' MSME loans outweighing the rise in the MSMEs outstanding loans by Non-Banks financial institutions. The decline in MSMEs' outstanding loans reflects the impact of the COVI-D19 pandemic on the income of some MSMEs from the fall in aggregate demand, due to cancelled events, the border closure, and the disruptions to exports from biosecurity restrictions, resulting in a decline in agricultural exports overseas.

On the other hand, the number of MSME loans rose by 341 (16%) to 2,467 MSMEs over the year to June 2020, owing to a significant increase in the number of MSMEs in the manufacturing, wholesale, retail, and agriculture sector.

The increase in the number of MSME loans was attributed to loans extended by Non-Banks Financial Institutions, reflecting their COVID-19 and TC Harold relief packages.

The increase in the number of MSMEs in the wholesale retail sector was led by Non-Banks loans for retail stores and flea market goods.

Tonga's access to finance indicators showed a slight decline over the year to June 2020. This indicator consists of banks and non-bank branches and agents, banks' EFTPOS and ATMs. The slight decline in access to finance was mainly due to the fall in the number of banks' EFTPOS terminals.

This was due to inactive terminals from merchants who are affected by COVID-19 and the fall in aggregate demand. Despite the decline in the number of EFTPOS terminals, the number of branches and agents increased. However, the number of Non-Banks access points slightly increased owing to a rise in the number of branches in the outer islands, reflecting the entrance of new foreign exchange dealers. SPBD remained the Non-Bank financial institution with the highest number of access points, compared to other non-bank financial institutions over the year. This is consistent with the ongoing activities and services carried out by SPBD, for their members, in all the islands except the two Niuas.

From the usage of financial services perspective, the usage of financial services indicators showed an increase over the year, mainly driven by a rise in both the total number of individual deposits and individual loan accounts. Bank customers mainly drove the increase, with customers preferring direct deposits of remittances to their bank account, to access the Banks ATMs or EFTPOS machines. This preference may also be driven by the COVID-19 social distancing requirements. Furthermore, new customer's accounts were opened to receive the Government financial assistance through the COVID-19 Economic Stimulus package.

Moreover, Local Money Transfer refers to money that is sent or transferred by the Foreign Exchange Dealers to another party within Tonga.

The local inward transfers declined by T\$3.2 million (by 23%) over the year ended December 2020. The decline was mainly due to a decline in the local inward transfers from Tongatapu to Vava'u and Ha'apai.

The decline in family support and gifts drove the fall in local inward transfers, and an increase in remittances in kind. Some households provide family support to their family in outer islands, and vice versa, through remittances, in kind rather than cash. This decline is consistent with the subdued economic activities locally and globally, as a result of the spill over effect of the COVID-19 pandemic.

Access to finance is expected to continue to improve, as the Reserve Bank regulates non-bank financial institutions, to protect customers and relevant financial services.

Non-bank financial institutions providing direct transfers to accounts, and usage of ATMs instead of over-the-counter transactions, would continue to gain market share as customers' preferences shift to digital means for financial transactions.

Regulating the non-bank financial institutions would provide accessible and relevant financial products, the competition would reduce costs and, in turn, support economic growth. However, the termination of agent agreements between one of the Foreign Exchange Dealers and a commercial bank in the outer islands, as well as the closing down of one of the bank's branch in Vava'u, will limit the individual's access to financial services.

The Reserve Bank will continue to liaise with the banks and non-banks in terms of monitoring, and to encourage access to finance for both individuals and MSMEs sector.

However, a negative outcome from Tonga's AML Mutual Evaluation report, may result in the termination of agent agreements, and lower the number of financial access points, in the outer islands.

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

The Working Group on Serious Financial Crimes, which comprise several Government Ministries and law enforcement agencies, met several times during the year to review and update Tonga's Mutual Evaluation 1st and 2nd draft reports.

Tonga's Mutual Evaluation process was put on hold in March 2020, prior to the initial scheduled face-to-face meeting with the assessors, due to the COVID-19 pandemic. The process had since resumed with Tonga's face-to-face meeting on 16th - 18th February 2021. The purpose of the face-to-face meeting was to discuss the key issues and priority areas, identified from the 3rd draft Mutual Evaluation report.

The Asia Pacific Group on Money Laundering has provided new time frames for Tonga's Mutual Evaluation process. Following the face-to-face meeting, Tonga expects a 4th draft report from the assessors in mid- April 2021 and the final draft is expected to be ready in May 2021. The 4th draft report will be very critical for Tonga to review as this draft would have considered the arguments and further submissions made by Tonga during the course of the face-to-face meeting. Tonga's report will be finalised for discussion at the next APG plenary in June 2021. The 3rd draft report indicates a negative outcome for Tonga's assessment, which may result in the country being put under scrutiny, by international bodies such as the European Commission and the Financial Action Taskforce (FATF). The members of the Working Group are thus working collectively, to address the recommended actions put forward from the draft reports, including addressing the gaps in key relevant legislations.

The Reserve Bank has worked on developing its own Know Your Customer (KYC) system, to collect and maintain its customers information.

The KYC system is a stepping stone to an envisioned National KYC system, that will ensure transparency and compliance across the financial system. The project is ongoing with consultations, to be conducted soon, with the relevant Government ministries as well as the private sector.

Conclusion & Way Forward

In light of the above economic and financial developments, the Reserve Bank considers its current accommodative monetary policy stance, to be appropriate for the medium term. Headline inflation lingered below the 5% reference rate, while foreign reserves is very comfortable, and a sound financial system was maintained.

As such, the monetary policy measures outlined below are maintained to encourage the utilisation of the excess liquidity in the banking system, through prudent lending, to support economic growth and strengthen the monetary policy transmission mechanism.

- The monetary policy rate remains unchanged at 0% (zero interest rate policy);
- Maintain the minimum loans/deposit ratio at 80%;
- Maintain the inflation reference rate to remains at 5%;

- Maintain the Statutory Reserve Deposit ratio to remains at 10%.

In response to the extraordinary challenges that COVID-19 has brought to the Government, businesses, and households in Tonga, the NRBT will continue to maintain the following monetary policy measures:

- Monitoring the commercial banks' capital reserves, and adjust further when required.
- Ease the exchange control requirements when required.
- Continue to facilitate the issue of Government Bonds.
- Maintain clear channels of effective communications, with the financial institutions, for adequate preparedness.
- Continue to be transparent, and raise awareness of its monetary policy decisions, through press releases to the public.
- Closely monitor the impacts of the pandemic in the financial system, for early detection of any signs of vulnerability.
- Continue to ensure that both commercial banks and non-bank financial institutions adheres to all Government declarations regarding COVID-19, in the work place, while delivering essential financial services to the public.

To address the elevated and emerging risks to the financial system, the NRBT will continue its effort in achieving the following additional measures, to promote a stable, sound, accessible, efficient and inclusive financial system, conducive to macroeconomic stability and growth.;

- Enhance financial sector supervision, through advanced risk assessments, stress-testings, operational and cybersecurity risks, and effectively supervising credit information system in Tonga.
- Expand the supervision function of the NRBT, to cover in its scope of both offsite and onsite supervision, the money laundering and terrorist financing.
- Fully implement the Tonga National Payment System (TNPS).
- Implement the Moneylenders Act 2018 and the Insurance Bill 2018.
- Complete stakeholder consultation the Pension Fund Bill.
- Complete drafting of the Fair Reporting of Credit Bill.
- Continue to liaise with the Ministry of Finance, and the Ministry of Trade and Economic Development, on the Credit Union Bill.
- Complete and implement the National Know Your Customer (KYC) system.
- Implement the Repatriation of export proceeds requirement of the Foreign Exchange Control (FEC) Act 2018.
- Prioritize addressing recommendations from Tonga's Mutual Evaluation report once finalised.

The International Monetary Fund (IMF) recommends the current accommodative monetary stance to remain at this time, however the Reserve Bank stands ready to adjust its monetary policy setting, where necessary, to support its monetary policy objectives.

The Reserve Bank remains vigilant, and alert, of fast evolving developments in the global economy, especially related to the COVID-19 pandemic, and its impacts on economic growth and financial stability.

8.4 Social Development and Challenges

Sustainable development considers economic, social and environmental aspects together. This is the core element of all development processes linking humans and their surroundings. This section focuses on the social development dimension in Tonga. In this regard, the Tongan government together with national and international stakeholders have been working towards improving socio-economic welfare, health and education outcomes of the Tongan population. In these areas, Tonga has made progress in recent years however significant performance gaps remain when compared to peer countries in the Pacific region.

Moreover, in the context of the COVID-19 health and socio-economic crisis, there are additional challenges that have affected Tonga's social development. Although Tonga has been fortunate to remain COVID-19 free hitherto, the economic slowdown and border closure has nevertheless resulted in job losses and a decline in the standard of living of its people, thus worsening the conditions of previously identified households with income below poverty line. In addition, COVID-19 and social distancing have resulted in new challenges of ensuring equitable health and education access. During 2020 Government implemented the COVID-19 Stimulus Package (Phases 1 and 2) to support businesses and households affected by the pandemic. A Phase 3 of the Stimulus Package has been designed for implementation during the first half of 2021. These emerging issues have been considered by Government in the design of the Budget Strategy FY 2022.

I. JOB CREATION

COVID-19 Emergency Response

The unemployment rate in Tonga was 16.4 percent in 2016 which is expected to increase due to COVID-19 since the crisis has significantly affected businesses and resulted in job losses. Based on a business survey conducted by the TCCI and the ILO (June 2020), it was estimated that 62 percent of the Tongan businesses reported, had either planned to, or actually dismissed workers due to COVID-19.

For FY 2021, Ministry of Finance estimates indicated a decline in economic sectors with the largest contribution to GDP. The decline in GDP continues to be associated with the decrease in tourism sub-sectors (Accommodation and Food & Beverage services), wholesale and retail, agriculture and forestry. These sectors represent 30.5 percent of the total employed population in 2018.¹³

During Phase 1 of the COVID-19 Stimulus Package, Government implemented the Employee Wage Support Scheme which provided a one-off transfer of \$535 for those employees affected by the 2-weeks lockdown in March 2020, a total of 5,327 employees benefitted from this scheme, with a total disbursement of \$2.8 million. In addition, during Phase 1 of the COVID-19 Stimulus Package the Government also supported the Tongan Seasonal Workers stranded abroad. This scheme benefitted the stranded 2,252 Tongans in reference, and their families. The benefits comprised TOP\$250 for singles and TOP\$300 for married ones.

¹³ ADB-TA (2020). Rapid Assessment Report

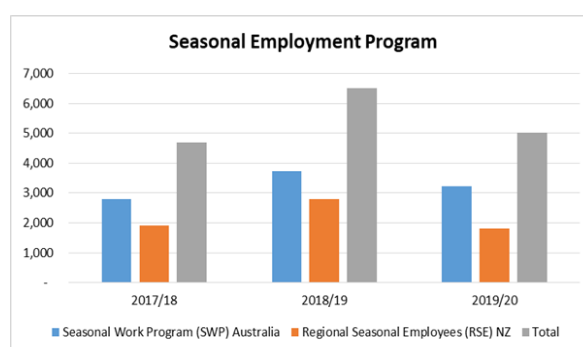
Due to the prolonged length of the COVID-19 economic crisis, Government has approved a new roll-out of the Employee Wage Support during the first semester of 2021 (Phase 3 of the COVID-19 Stimulus Package). This will complement additional business support. A total of \$7 million has been allocated for the Employee Wage Subsidy and business support during Phase 3.

Job Challenges and the 2022 Budget

The latest Census Population (2016) indicated that Tonga had a large labour force (above 16 years of age) along with a limited number of jobs in the domestic economy.

Hence, outmigration (seasonal and permanent) has remained as one of the main options for a large percentage of Tongans (World Bank 2018)¹⁴.

The Seasonal Workers Program (SWP) and the Recognized Seasonal Employer (RSE) scheme respectively offered by the Australian and New Zealand Governments, have provided short-term work opportunities for Tongans abroad, while at the same time supporting households in Tonga via remittances¹⁵. The SWP chart reflects a continuous increase in the number of Tongan beneficiaries in both schemes (SWP and RSE) during the last three years.



In addition to these employment programs, Government together with key stakeholders, continue to implement complementary policy initiatives to improve skills development in Tonga. This includes implementation of donor-funded projects to upgrade skills and improve the employment participation rate such as the TVET Students Support Fund¹⁶ implemented through the World Bank SET project.

II. HEALTH (COVID- 19)COVID-19 initiatives

COVID-19 has hitherto infected more than 119 million people worldwide and claimed over 2.5 million lives. Although Tonga remains one of the few countries, still COVID-19 free, frontline medical workers are the most at risk of potentially contracting the virus, should it enter Tonga's borders. In addition, there are other people in Tonga who are vulnerable to COVID-19 (people with NCDs, disabilities and elderly). During Phases 1 and 2 of the Stimulus Package (2020), the Tongan Government executed over \$18 million in the Health sector, mainly in COVID-19 preparedness¹⁷ and strengthening the health sector to ensure business continuity.

During Phase 3 of the Stimulus Package (1st semester of 2021), the Government is planning to invest an additional funds to strengthen the health sector.

¹⁴ World Bank (2018). SKILLS AND EMPLOYMENT FOR TONGANS PROJECT. [Project Appraisal Document](#)

¹⁵The age range for these programs is between 18 to 45 years old only due to the need to ensure the health and fitness level of each participant for better job performance. The advantages of the RSE and SWP include job opportunities abroad and remittances in the domestic market with spillover effects in different sectors. The disadvantages include social issues and family problems due to distance and absence of spouse from the family unit.

¹⁶ The TVET Support Fund provides tuition funding and allowances to poor youth that enrolls in TVET courses.

¹⁷As part of the Stimulus Package, the MoH has invested in the following areas for COVID-19 health preparedness: laboratory capacity, surveillance, case management, PPE and medical equipment.

Furthermore, considering that the deployment of vaccines is the only way to return to normality, Government is finalizing its National Deployment and Vaccination Plan to access COVID-19 vaccines from the COVAX Facility. The first package is due to arrive in April 2021.⁴

Medium-term health challenges and the FY 2022 Budget

The medium-term health issues in Tonga relate to tackling the incidence of Non-Communicable Diseases (NCDs) and Communicable Diseases (CDs) and also achieving Universal Health Coverage (UHC) in the Tonga. In response, Government, in collaboration with development partners, has been supporting ongoing initiatives for strengthening the health sector such as improving health management information systems and health facilities, and providing health training and community awareness programs. For example, in 2020 the Ministry of Health implemented a pilot project in 'Eua, enrolling the people of the island in the UHI, creating their health registry and also supporting community-based health promotion and illness prevention strategies¹⁸. In addition, the MOH continues with its public awareness program and implementation of the approved National Multi-Sectoral Plan on Antimicrobial Resistance for 2017-2022.

III. Education

COVID-19 initiatives

School programs were disrupted by the COVID-19 pandemic. In response, Government developed an e-learning system, aimed at delivery of multimodal lessons for early childhood education, for implementation in the event of further lockdowns.

Additionally, as part of the COVID-19 Stimulus Package (Phases 1 and 2), Government allocated \$3.8 million for the Education cluster for provision of assistance to secondary school students by paying one (1) term school fees and financial support for tertiary students abroad. About 10,000 secondary-school students in Tonga, and 900 students abroad, benefitted from these emergency assistance programs.

During Phase 3 of the Stimulus Package (1st Semester of 2021), Government is planning to invest an additional \$0.25 million aimed to continue supporting the Education cluster during COVID-19, inclusive of supporting Tongan students stranded abroad.¹⁹

Education Challenges and the FY 2022 Budget

Amongst the rapid changes we are experiencing in our societies, quality education is an ongoing development priority for the Tongan government. Government and development partners continue working in partnership to provide sector wide investment in quality education in Tonga. This includes child development centers and skilled professional teachers. Moreover, efforts have been initiated to start a sector wide review of the educational system as well as the Ministry of Education's Strategic Plan and Curriculum.

Other medium-term plans include: ongoing negotiations and planning for reviewing school fees, with a view to recover the operation costs. This can be a pilot initiatives in one of the Government's schools. Ongoing work is expected on designing safer schools and implementing the technical and vocational policy framework, recently approved by Cabinet.

¹⁸ ADB-TA Rapid Assessment

¹⁹ This includes their return tickets to Tonga and quarantine costs.

At the same time, support will be provided towards early childhood education. Development projects such as DFAT's Skills Employment to Tonga and the World Bank SET project will continue to address similar issues.

IV. SOCIAL PROTECTION

COVID -19 Initiatives

Given the socio-economic crisis derived from COVID-19, it is likely that poverty has increased in Tonga. Government has supported poor and vulnerable households through the Social protection cluster of the COVID-19 Stimulus Package. During Phases 1 and 2, a total of \$0.5 million was allocated to the social protection cluster; some of the main emergency social protection programs included the following: -

- One off top-up payment of \$100 to the current beneficiaries: elderlies (4402) and disabilities (1065);
- Beneficiaries by location: Tongatapu (70 percent), Vava'u (17 percent), Ha'apai (6 percent), 'Eua (5 percent), Niuatoputapu (1 percent) and Niuafu'ou (1 percent);²⁰
- One off top-up payment to the current beneficiaries under the Conditional Cash Transfer (CCT) program (SET Project).
 - About 1000 CCT beneficiary households, representing about 2,000 secondary-level students receive \$200;
 - Disaggregating by gender and geographic domain: -
 - (i) about 53 percent of households were headed by females;
 - (ii) by geographical location: Tongatapu (49 percent) and the Outer Islands (51 percent).²¹
- Community development grant to support income generating activities and targeted women as follows:
 - (i) Women Microfinance Scheme (about 411 applications) and;
 - (ii) Grant support of TOP\$250 to women in hardship (564).

During Phase 3 of the Stimulus Package (1st Semester of 2021), Government is planning to invest additional funds to support poor and vulnerable groups.

Social Protection Challenges and the 2022 Budget

Improving management information systems and targeting

MIA is working in collaboration with Statistics Department to update the database on poverty indicators. Statistics Department is currently collecting the Household Income and Expenditure Survey FY 2021, which will allow an update of the multidimensional poverty figures of the country.

The latest estimates from HIES FY 2016 indicate the multidimensional poverty in Tonga reached 2 percent, the incidence being higher for children compared to adults (33 percent vs 2 percent). The poverty figures expect to increase due to COVID-19 economic impacts.

Expanding coverage of social protection programs

In 2015, the relative coverage (total beneficiaries as a share of target population) of social protection only covered 7.6 percent of its intended beneficiaries.

²⁰ Source: Beneficiaries data received from NRBF.

²¹ Source: Beneficiaries data received from MIA.

This is much lower than the regional average in the Pacific (31.2 percent), even when excluding upper-middle income countries in the region (23.3 percent) (ADB 2019).²²

As part of Phase 3 of the Stimulus Package (1st semester of 2021), Ministry of Internal Affairs and Statistics Department together with the Ministry of Finance have started an inter-agency coordination mechanism for identification database to facilitate efficient targeting of social assistance.

Expanding social services

Strengthening social services such as specialized home-care for the elderly and people with disabilities, is an important policy area for Tonga. As part of the Budget for FY 2022, proposed support to the Ma'a Fafine mo e Famili under the Tonga Social Services Program (TSSP) is being financed for extension of their services to the Outer Islands.

OTHER ISSUES

Illicit Drugs: Drug-related problems are still identified as one of Tonga's major issues of concern. Government has ongoing commitment to combat illicit drugs by including it in its key strategic priority areas for the FY 2021 budget. Prior to that, immediate actions have been made to address the concerned issue. Staffing and Police resources has been strengthened to combat illicit drugs under the guidance of the "Tonga Police Drugs Enforcement Task Force".

The taskforce is tasked to spearhead the fight against illicit drugs under the authority of Tonga Police. The task force is currently supported by other relevant related units within the organization such as the Tactical Response Group, Intelligence Unit, Forensics, Narcotics Detector Dogs Unit and the Police Districts. Government allocated \$1.6 million to combat illicit drugs through the provision of technical equipment and TA for drug sample testing.

²² ADB-TA Rapid Assessment

8.5 Tonga Selected Indicators

Table 18: Tonga Selected Indicators, FY 2013– FY 2020

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20 ^p
	(Annual Percentage change)							
Output and prices 1/								
Real GDP	0.3	2.0	1.2	6.6	3.3	0.3	0.7	-0.8
Consumer prices (period average)	0.7	2.3	0.1	-0.6	7.3	5.3	4.0	0.2
Money and credit (end-period) 2/								
Broad money (M2) % growth	7.3	8.1	2.4	12.6	11.3	10.6	1.8	1.1
Domestic credit	-0.4	9.2	11.7	18.2	13.3	-2.2	2.8	3.2
Private sector credit % growth	-7.8	-0.6	8.9	19.8	22.8	7.0	8.6	3.0
Balance of payments (OET Basis)								
Exports, f.o.b.	12.4	15.7	16	19.1	23.7	20.9	19.3	17.9
<i>of which: Squash exports</i>	<i>2.4</i>	<i>2.9</i>	<i>1.8</i>	<i>3.7</i>	<i>4.3</i>	<i>5.5</i>	<i>3.6</i>	<i>5.4</i>
Imports, f.o.b.	260.9	261.7	305.9	320.3	356.4	408.8	443.7	417.2
Services (net)	6.3	-3.1	-6.0	17.3	26.9	32.1	32.2	18.8
Income (net)	0.9	17.0	13.7	5.6	-15.9	-7.9	8.9	5.6
Services and Income (net)	7.2	13.9	7.7	22.9	11.0	24.2	41.1	24.4
Transfers (net)	174.8	192.2	215.6	301.0	365.0	382.5	381.4	427.0
<i>of which: Private transfer receipts</i>	<i>209.6</i>	<i>208.9</i>	<i>221.1</i>	<i>279.9</i>	<i>334.1</i>	<i>358.3</i>	<i>358.7</i>	<i>370.6</i>
Current account balance	-66.5	-39.9	-66.7	32.2	21.0	18.8	-2.0	52.1
<i>(In percent of GDP)</i>	<i>-8.5%</i>	<i>-5.0%</i>	<i>-7.9%</i>	<i>3.5%</i>	<i>2.1%</i>	<i>1.8%</i>	<i>-0.2%</i>	<i>4.3%</i>
Overall balance	17.3	11.4	41.9	66.8	53	60.9	15.6	58.3
Gross international reserves (end-period)								
In millions of pa'anga	263.3	274.4	289.7	354.9	407.9	468.7	484.3	543.8
In months of imports cover <i>(trade estimate)</i>	9.1	9.1	6.5	7.1	7.5	8.0	7.9	9.2
Total debt 3/								
Total debt/GDP (%)	47.7	45.9	49.8	47.7	44.2	44.2	40.9	40.4
Exchange rate (end -period)								
T\$ per US\$ (end-period)	1.82	1.79	2.11	2.21	2.19	2.27	2.28	2.29

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 2012 - 2017, Base Period (October 2010 = 100)

	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
2012	105.7	106.4	99.6	103.4	104.6	113.0	102.4	102.1	107.4	103.1
2013	106.4	108.2	100.7	103.4	104.6	113.1	99.8	102.5	109.0	103.0
2014	109.1	112.2	101.4	104	119.1	112.8	100.4	105.3	112.3	104.8
2015	108	114.3	101.3	98.3	129.4	99	106.3	105.9	108.4	107.4
2016	110.7	115.8	103.5	98.5	138.6	96.1	128.4	113.2	107.8	114.8
2017	119	125.7	114	102.4	138.8	104.2	157.5	112.1	117.9	120.5

Source: Statistics Department

Annual Average Consumer Price Index for 2018, 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	Health	Transportation	Communications	Recreation and culture	Education	Restaurants and hotels	Misc. goods and services	Imported Items	Local Items
Weight.	100.0	39.8	11.6	2.1	10.8	3.2	0.3	16.4	5.2	1.1	2.2	3.1	4.2	55.1	44.9
2018	98.9	99.2	93.3	99.0	99.8	99.4	101.1	98.5	106.6	100.0	100.0	100.3	100.0	98.6	99.3
2019	100.1	100.9	97.7	102.6	100.2	101.0	100.0	96.9	100.3	103.6	104.2	108.2	99.5	99.6	100.7

Source: Statistics Department

*'By God's grace we are saved through faith'***Annual Percentage Change in CPI for December month 2012 - 2017**

	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
2012	2.5	6.0	0.4	-1.8	0.0	1.7	0.2	-0.2	2.3	2.8
2013	0.8	1.0	1.4	2.4	0.0	-0.8	-2.0	0.8	1.4	0.0
2014	0.2	1.0	-0.3	-1.6	16.2	-5.4	-0.8	3.1	0.5	-0.2
2015	-1.2	0.2	0.4	-5.9	8.9	-8.2	-0.8	-0.1	-4.9	4.4
2016	6.7	6.3	2.3	2.5	4.0	4.5	29.9	6.9	6.9	6.4
2017	5.5	6.0	12.6	3.6	2.0	5.3	17.4	-2.1	7.4	3.0

Source: Statistics Department

Note: Old Consumer Price Index (CPI) using the base period of October 2010 = 100

Annual Percentage Change in CPI for December month 2018 - 2019

	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
2018	4.8	6.8	15.5	4.4	2.2	0.5	0.7	4.1	-10.4	0.1	-	1.3	1.2	2.9	7.2
2019	1.2	2.5	-4.5	4.0	0.3	1.0	0.0	1.2	1.6	3.6	4.2	6.8	-1.2	0.1	2.1

Source: Statistics Department

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

Exports by Institutional Sector, 2011/12 - 2018/19

INSTITUTIONAL SECTOR	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Private Sector	25,343	100	22,866	99.8	21,705	99.9	28,030	99.6	29,533	96.1	33,489	92.3	23,174	96.4	27,721	96.3
Government Sector	6	-	2	-	20	0.1	23	0.1	22	0.1	429	1.2	71	0.3	161	0.6
Quasi-Government Sector	5	-	33	0.1	8	-	82	0.3	1,188	3.9	2,368	6.5	783	3.3	904	3.1
TOTAL	25,354	100	22,901	100	21,733	100	28,135	100	30,744	100	36,286	100	24,028	100	28,786	100

Source: Statistics Department

Exports by HS Section, 2011/12 - 2018/19

HS Code SECTION ITEM	2011/12		2012/13		2013/14		2014/15		2015/16p		2016/17p		2017/18p		2018/19p	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Live Animals;Animal Products	9,277	36.6	8,029	35.1	5,146	23.7	13,005	46.2	8,489	27.6	10,385	29	5,456	22.7	8,907	30.9
Vegetable Products	10,593	41.8	11,393	49.7	12,628	58.1	11,896	42.3	14,774	48.1	18,999	52.4	16,335	68.0	16,872	58.6
Prepared Foodstuff; Beverages, Tobacco	358	1.4	494	2.2	460	2.1	38	0.1	1,103	3.6	276	0.8	384	1.6	209	0.7
Products of the Chemical Or Allied	367	1.4	462	2.0	596	2.7	562	2.0	520	1.7	208	0.6	153	0.6	415	1.4
Wood and Articles of Wood;	416	1.6	424	1.9	739	3.4	413	1.5	1,770	5.8	666	1.8	660	2.7	20	0.1
Miscellaneous Manufactured Articles	27	0.1	112	0.5	90	0.4	34	0.1	130	0.4	165	0.5	53	0.2	50	0.2
Works of Art, Collectors Pieces and	144	0.6	26	0.1	-	-	2.0	-	24	0.1	23	0.1	111	0.5	14	0.0
Other Exports	4,172	16.5	1,961	8.6	2,074	9.5	2,185	7.8	3,933	12.8	5,564	15.3	876	3.6	2,299	8.0
TOTAL	25,354	100	22,901	100	21,733	100	28,135	100	30,744	100	36,286	100	24,028	100	28,786	100

p: provisional numbers

Source: Statistics Department

Exports by Country of Destination, 2011/12 - 2018/19

COUNTRY	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
New Zealand	4,801	18.9	6,550	28.6	7,184	33.1	7,049	25.1	6,748	21.9	8,810	24.3	5,999	25.0	9,096	31.6
Australia	4,622	18.2	1,437	6.3	2,002	9.2	3,200	11.4	4,636	15.1	8,352	23.0	2,863	11.9	2,601	9.0
Fiji	697	2.7	200	0.9	170	0.8	186	0.7	471	1.5	657	1.8	44	0.2	76	0.3
Mainland USA	2,651	10.5	3,590	15.7	3,359	15.5	5,514	19.6	10,484	34.1	8,064	22.2	5,964	24.8	7,077	24.6
Samoa	375	1.5	479	2.1	746	3.4	1,137	4.0	433	1.4	327	0.9	179	0.7	442	1.5
Japan	6,293	24.8	2,754	12.0	2,710	12.5	3,361	11.9	4,064	13.2	4,616	12.7	1,799	7.5	1,691	5.9
Korea	1,548	6.1	2,020	8.8	2,232	10.3	590	2.1	1,543	5.0	2,061	5.7	5,667	23.6	2,747	9.5
Singapore	30	0.1	171	0.7	-	-	4	-	2	0.0	-	-	59	0.2	-	-
American Samoa	282	1.1	323	1.4	50	0.2	453	1.6	546	1.8	430	1.2	263	1.1	791	2.7
Hong Kong	2,354	9.3	3,579	15.6	1,812	8.3	5,368	19.1	59	0.2	12	0.0	7	0.0	17	0.1
All other Countries	1,701	6.7	1,798	7.9	1,467	6.8	1,273	4.5	1,757	5.7	2,957	8.1	1,184	4.9	4,248	14.8
TOTAL	25,354	100	22,901	100	21,733	100	28,135	100	30,744	100	36,286	100	24,028	100	28,786	100

Source: Statistics Department

Imports by Institutional Sector, 2011/12 - 2018/19

INSTITUTIONAL SECTOR	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Private Sector	300,026	86.9	308,799	89.3	316,513	87.5	353,566	82.4	423,299	88.5	437,008	85.9	469,903	88.0	487,059	86.4
Government Sector	23,737	6.9	21,284	6.2	12,648	3.5	15,655	3.7	23,984	5.0	31,787	6.3	24,399	4.6	16,856	3.0
Quasi-Government	21,648	6.3	15,579	4.5	32,478	9.0	59,639	13.9	31,057	6.5	39,732	7.8	39,566	7.4	59,862	10.6
TOTAL	345,411	100	345,662	100	361,639	100	428,859	100	478,340	100	508,527	100	533,868	100	563,777	100

Source: Statistics Department

*'By God's grace we are saved through faith'***Imports by Main HS Section, 2011/12 - 2018/19**

HS Code SECTION ITEM	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
1. Live Animals; Animal Products	39,778	12	43,922	13	44,284	12	46,987	11	48,347	10	53,023	10	60,542	11	55,638	10
2. Vegetable Products	10,536	3	10,838	3	11,005	3	11,341	3	14,588	3	15,142	3	17,630	3	18,513	3
3. Prepared Foodstuff; Beverages & Tobacco	47,152	14	48,283	14	50,800	14	55,893	13	68,575	14	81,580	16	74,511	14	61,244	11
4. Mineral Products	88,675	26	82,697	24	81,783	23	88,805	21	83,105	17	77,515	15	111,259	21	108,850	19
5. Products of the Chemical or Allied	14,794	4	14,346	4	16,556	5	15,701	4	20,121	4	18,599	4	20,956	4	22,299	4
6. Wood and Articles of Wood	9,434	3	8,063	2	9,200	3	13,763	3	16,433	3	20,128	4	20,361	4	20,584	4
7. Pulp of Wood and Other Fibrous Cellulosic Material	12,139	4	12,980	4	10,442	3	10,944	3	12,276	3	9,076	2	9,322	2	13,374	2
8. Base Metals & Articles of Base Metal	20,563	6	15,214	4	16,322	5	20,203	5	26,629	6	38,251	8	29,216	5	35,659	6
9. Machinery and Mechanical Appliance	46,895	14	41,744	12	58,596	16	74,142	17	83,461	17	76,997	15	78,780	15	106,734	19
10. Miscellaneous Manufactured Articles	6,850	2	10,281	3	7,032	2	10,952	3	13,515	3	15,204	3	17,151	3	15,068	3
11. Vehicle, Aircraft, Vessel & Associated, Transport Equipment	15,516	5	19,394	6	17,535	5	40,430	9	50,360	11	46,989	9	46,906	9	56,303	10
12. Works of Art, Collectors Pieces	1,074	-	7,948	2	85	-	17	-	37	-	6	-	4	-	16	-
13. Other Imports	32,005	9	29,952	9	37,999	11	39,681	9	40,895	9	56,017	11	47,229	9	49,495	9
TOTAL	345,411	100	345,662	100	361,639	100	428,859	100	478,340	100	508,527	100	533,868	100	563,777	100

Imports by Country of Origin, 2011/12 - 2018/19

COUNTRY	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
New Zealand	100,067	29	101,254	29	107,341	30	122,470	29	140,074	29	155,900	31	156,775	29	151,889	27
Australia	19,553	6	17,938	5	20,562	6	24,312	6	31,277	7	38,716	8	35,923	7	40,127	7
USA	46,652	14	40,695	12	39,635	11	46,570	11	40,074	8	52,201	10	49,116	9	65,288	12
China	29,260	8	27,878	8	20,424	6	36,049	8	66,129	14	40,242	8	51,932	10	49,599	9
Indonesia	6,157	2	4,954	1	3,429	1	6,431	1	8,174	2	8,185	2	8,929	2	8,063	1
Fiji	29,260	8	27,878	8	31,257	9	34,921	8	50,024	10	40,126	8	44,481	8	40,227	7
Japan	17,175	5	20,275	6	15,500	4	35,709	8	32,339	7	52,818	10	38,824	7	55,417	10
Singapore	78,725	23	81,146	23	83,179	23	63,965	15	54,531	11	77,459	15	82,307	15	98,667	18
Others	18,562	5	23,644	7	40,312	11	58,432	14	55,718	12	42,880	8	65,581	12	54,500	10
TOTAL	345,411	100	345,662	100	361,639	100	428,859	100	478,340	100	508,527	100	533,868	100	563,777	100

Source: Statistics Department

Tonga Balance of Payment: 2012/13 – 2019/20

(T\$m, unless otherwise indicated)	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20p
Balance of Trade	-248.5	-246.0	-289.9	-301.2	-332.7	-387.9	-424.4	-399.3
Exports, f.o.b.	12.4	15.7	16.0	19.1	23.7	20.9	19.3	17.9
of which: Squash exports	2.4	2.9	1.8	3.7	4.3	5.5	3.6	5.4
Imports, f.o.b.	260.9	261.7	305.9	320.3	356.4	408.8	443.7	417.2
Services (net)	6.3	-3.1	-6.2	17.3	27.0	32.3	32.2	18.8
Receipts	125.1	109.0	100.4	139.1	169.7	199.0	204.3	184.0
of which: Tourism receipts	71.5	80.3	63	84.1	108.8	111.2	129.4	
Payments	118.8	112.1	106.6	121.8	142.7	166.7	172.1	165.2
Income (net)	0.9	16.9	13.6	5.6	-16.1	-7.7	8.7	5.6
Receipts	11.7	34.4	26.2	22.2	17.7	24	25.8	25.8
Payments	10.8	17.5	12.6	16.6	33.8	31.7	17.10	20.20
Current Transfers (net)	174.7	192.0	215.5	301.0	364.9	382.6	381.3	427.0
Official transfers (net)	2.2	21.7	41.0	78.9	85.4	82.3	87.8	123.8
Private transfers (net)	172.5	170.3	174.5	222.1	279.5	300.3	293.5	303.2
Official transfer receipts	3.4	23	43.1	82.6	87.9	91.1	91.5	128.2
Official transfer payments	1.2	1.3	2.1	3.7	2.5	8.8	3.7	4.4
Private transfer receipts	209.6	208.9	221.1	279.9	334	358.4	359.3	370.6
Private transfer payments	37.1	38.6	46.6	57.8	54.5	58.1	65.8	67.4
Current account balance	-66.6	-40.2	-67.0	22.7	32.2	21.0	-2.0	52.1
(Percent of GDP)	-8.5%	-5.0%	-7.9%	2.4%	3.2%	2.0%	-0.2%	4.3%
Capital account balance	88.6	101.2	67.2	15.2	29.8	40.6	42.1	22.2
Official capital (net)	33.5	17.3	8.9	7	9.7	16.37	22.0	11.2
Official capital inflows	38.2	24.6	13.5	7.0	9.8	17.2	22.5	11.6
Official capital outflows	4.7	7.3	4.6	0.0	0.1	0.9	0.5	0.4
Private capital (net)	55.1	83.9	58.3	8.2	20.1	24.2	20.1	11.0
Private capital inflows	71.5	101.5	75.5	10.5	22.7	27.4	22.0	11.7
Private capital outflows	16.4	17.6	17.2	2.3	2.7	3.2	1.9	0.7
Other items (net)	-4.8	-49.8	-14.2	-43.8	-81.8	-59.5	-56.1	-55.6
Overall balance	17.2	11.2	-14.0	-5.9	-19.8	2.1	-16.0	18.7
Memorandum items:	181.9	205.8	222.9	323.9	375.8	407.1	422.2	451.4
Service, income, and transfers (net)	519.9	566.5	599.7	802.6	928.2	1,020.2	1,027.4	1,089.6
Receipts	349.8	375.3	390.8	523.8	609.3	672.5	680.9	708.6
Payments	167.9	169.5	167.9	199.9	233.5	265.4	258.7	257.2
Gross official foreign reserves (TOP million)	263.3	274.4	289.7	354.9	407.9	468.7	484.3	543.8
Months of Import cover (trade estimate)	9.1	9.1	8.1	7.2	7.5	8.0	7.9	9.2

Source: National Reserve Bank of Tonga

*'By God's grace we are saved through faith'***Tonga: Monetary Survey: 2012/13 – 2019/20**

(T\$m, unless otherwise indicated)	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20p	
Net foreign assets	258.6	265.9	285.9	338.2	409.9	456.1	475.1	549.9	
Foreign assets	268.8	281.7	297.1	373.3	434.4	483.7	507.6	574.0	
Foreign liabilities	-10.2	-15.8	-11.2	-35.1	-24.5	-27.6	-32.5	-24.1	
Net domestic assets	56.4	74.2	62.0	53.6	26.0	26.1	16.0	-53.5	
Net domestic credit	167.4	177.8	206.0	247.0	278.0	275.6	278.7	248.5	
Government (net)	-29.2	-34.1	-26.9	-29.4	-51.5	-90.7	-117.1	-158.4	
Non-financial public enterprises	13.1	36.6	41.8	40.4	42.8	49.1	52.2	61.6	
Private sector	183.5	175.3	191.1	236.0	286.7	317.2	343.7	345.2	
Non-monetary financial institutions 1/	-8.8	-4.0	-3.9	-3.8	-4.2	-6.0	-5.1	-4.0	
Other items (net)	-102.2	-99.6	-140.1	-189.6	-247.8	-243.5	-257.7	-297.9	
Total domestic liquidity (M2)	314.9	340.0	348.0	391.8	436.6	482.2	491.0	496.4	
Narrow money (M1)	152.1	174.6	188.2	216.5	237.9	238.6	258.6	246.0	
Currency outside banks	32.1	40.1	45.4	48.5	61.9	70.3	70.3	71.4	
Demand deposits	120.0	134.4	142.7	168.0	176.0	168.4	188.3	174.6	
Quasi money	162.7	165.4	159.8	175.3	198.1	243.5	232.4	250.4	
Savings deposits	43.0	44.2	49.7	59.4	63.8	73.2	79.6	87.8	
Term deposits	110.1	109.2	98.6	103.7	124.4	154.0	142.3	156.0	
Foreign currency accounts	9.7	12.0	11.5	12.2	9.8	16.3	10.5	6.6	
				Annual Percentage Change					
Net foreign assets	9.9	2.8	7.5	18.3	21.2	11.3	4.2	15.7	
Foreign assets	7.1	4.8	5.5	25.6	16.4	11.3	4.9	13.1	
Foreign liabilities	-35.0	54.9	-29.1	213.4	-30.2	12.7	17.8	-25.8	
Net domestic assets	-4.6	31.6	-16.4	-13.5	-51.5	0.4	-38.7	-434.4	
Private sector	-9.4	-4.5	9.0	23.5	21.5	10.6	8.4	0.4	
Total domestic liquidity (M2)	7.0	8.0	2.4	12.6	11.4	10.4	1.8	1.1	
Narrow money (M1)	27.5	14.8	7.8	15.0	9.9	0.3	8.4	-4.9	
Quasi money	-7.1	1.7	-3.4	9.7	13.0	22.9	-4.6	7.7	
				In US dollars					
Net foreign assets	141.8	148.3	135.6	153.2	187.1	200.6	208.8	239.8	
Foreign assets	147.4	157.2	140.9	169.1	198.3	212.7	223.1	250.3	
Foreign liabilities	-5.6	-8.8	-5.3	-15.9	-11.2	-12.1	-14.3	-10.5	
Memorandum items:									
Velocity (GDP/average M2)	2.5	2.3	2.4	2.4	2.3	2.2	2.4	2.4	
Exchange rate (pa'anga per U.S. dollar; end period)	1.8	1.8	2.1	2.2	2.2	2.3	2.3	2.3	

Source: National Reserve Bank of Tonga

9. ANNEX II: BUDGET CONTRIBUTION to the GPA FY 2022**DETAILED BUDGET ALLOCATION BY PRIORITY FOCUS AREAS***Health Development*

Health (COVID-19, NCDs & UHC)	Recurrent (\$m)	Development (\$m)
Note [1]	47.07	
COVID-19 Projects		40.11
Vaccine Projects		3.49
Tonga Health Project		8.63
E-Health Projects		10.00
Other Health projects		8.22
Sub-Total	47.07	70.45
TOTAL	117.52	

Notes [1] – MOH \$44.03m, COVID-19 votes \$3.04m

Illicit Drugs and National Security

Illicit Drugs and National Security	Recurrent (\$m)	Development (\$m)
Note [2]	37.49	
Tonga Justice Sector Support Programme		1.95
Tonga Director Public Prosecution		0.18
Family Protection Legal Aid Centre for Survivors		0.38
Hakili Matangi Immigration Support (Pacific)		0.45
Fangatongo Military Camp		0.65
Pacific Detector Dog Programme		0.27
Music Centre		3.00
Other		1.92
Sub-Total	37.49	8.79
TOTAL	46.28	

Note [2] – MOF \$5m, HMAF \$11m, Ministry of Police & Fire Services \$15m, Prisons Dept \$4m, MORC (Boarder Management Division) \$2.49m.

Economic Development

Economic Development	Recurrent (\$)	Development (\$)
Note [3]	29.44	
Agricultural and Fisheries Project		4.46
Fisheries Projects		1.07
Tonga Fish Projects		2.36
GGP & NPGA		2.20
Pack House		0.35
Central Service Unit		2.83
European Union		0.4
TRIP II and Additional Financing		4.39
Skills for Employment in Tonga		8.88
Others		1.49
Sub-Total	29.44	28.43
TOTAL	57.87	

Note [3] – MTED \$7.44m, Ministry of Fisheries \$4.8m, MAFF \$10m, Ministry of Tourism \$7.2m.

Quality Education

Education	Recurrent (\$m)	Development (\$m)
Note [4]	56.25	
Scholarship		11.34
GPE (Global Partnership for Education)		0.73
Tonga Safe and Resilient Schools Project		4.50
Tonga Secondary Tertiary Development Program: Phase 2		0.04
Tonga Skills Development Program		1.00
Others		0.78
Sub-Total	56.25	18.39
TOTAL	74.64	

Notes [4] – MET \$56.25m

Infrastructure (with priority to ROAD improvement)

Infrastructure	Recurrent (\$)	Development (\$)
Note [5]	19.18	
Tonga Climate Resilience Transport Project		11.23
TCRTP II		5.92
TCTRP: CERC		2.52
Transport Project Development Facility		0.69
Fanga'uta Lagoon Crossing Bridge		1.20
New Fua'amotu International Airport		0.20
Nuku'alofa Ports Upgrade Projects (QSC Wharf)		3.50
Pacific Aviation Security		1.41
New Parliament Building		7.20
Sub-Total	19.18	33.87
TOTAL	53.25	

Note [5] – MOI \$15.5m, New building in MDAs budget (Item Code 2000) \$3.68m

Public Sector System Reform (including e-government)

Public Sector System Reform (including e-government)	Recurrent (\$m)	Development (\$m)
Note [6]	184.4	
Tonga Digital Government Support Project		3.25
Parliament Trainings		0.60
Economic Public Reform		0.75
Sub-Total	184.4	4.61
TOTAL	189.01	

Note [6] - Palace Office \$3.59m; Legislative Assembly \$14.3m; Tonga Office of the Auditor General \$1.94m; Office of the Ombudsman \$2.18m; Ministry of Foreign Affairs \$14.12m; Prime Minister's Office \$8.8m; Ministry of Finance \$94.86m; Ministry of Public Enterprises \$1.57m; Electoral Commission \$1.16m; Attorney General's Office \$3.34m; Ministry of Lands & Survey \$ 6.06m; Public Service Commission \$2.05m; Statistics Department \$4.77m; Ministry of Internal Affairs \$4.88m; MORC \$8.01m; Ministry of Justice \$7m; Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change \$5.8m.

Energy, Climate Change and Disaster Risk Reduction

Energy, Climate Change and Disaster Risk Reduction	Recurrent (\$)	Development (\$m)
Note [7]	2.67	
Tonga Renewable Energy Project (TREP)		27.19
Outer islands Renewable Energy Project (OIREP)		8.89
Pacific Resilience Project		21.76
Climate Resilience Coastal Fisheries & Aquacultures		1.17
Installation of Winds Power Generation System		2.00
Nationwide Early Warning System Project		1.00
GCF Readiness		2.79
US AID Climate Ready		1.02
Tonga Coastal Resilience Project		1.44
D359-TO: Pacific Resilience Project		1.36
Integrated Urban Resilience Project (IURP)		9.39
Others		6.40
Sub-Total	2.67	84.41
TOTAL	87.08	

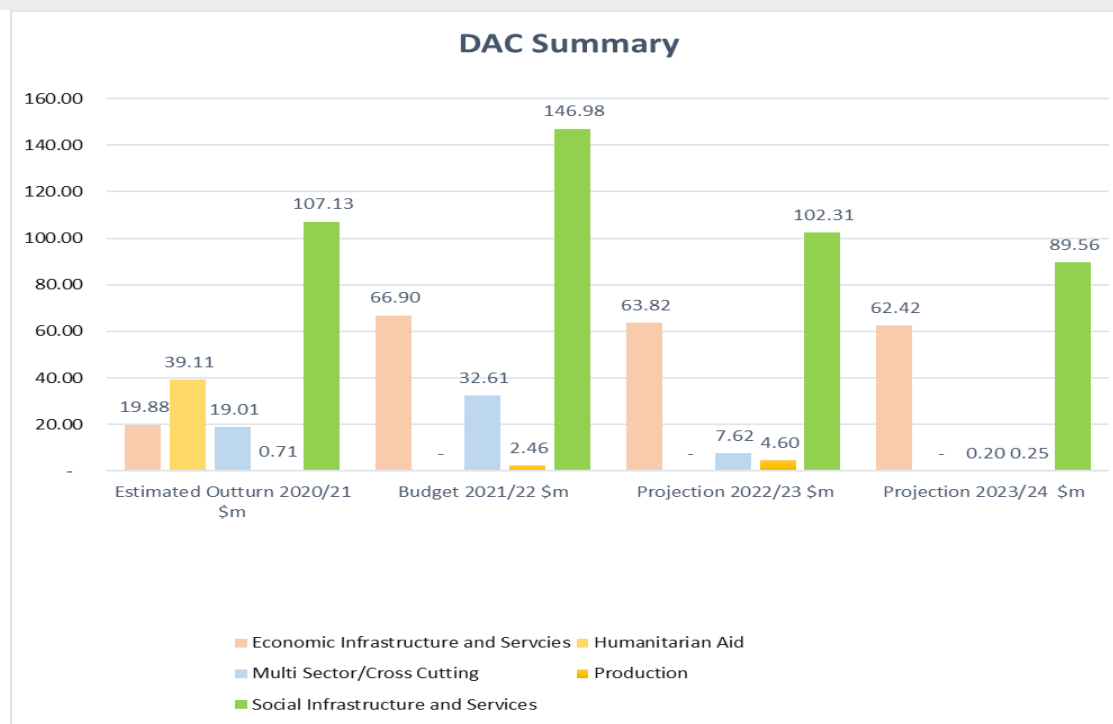
Note [7] – Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change (Energy Department) \$1.23 million, (Climate Change Department) \$0.64m, (Disaster Management Department) \$0.80m.

10. ANNEX III: DEVELOPMENT AID CLASSIFICATION

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

Figure 8 below shows the classifications of development projects according to the Organisation for Economic Co-operation and Development (OECD) as per Overseas Development Assistance (ODA). This clearly shows that the Social Infrastructure and Services sector remains as the dominant contributor of 59 percent or 146.98 million of the total development budget estimates, for FY 2022.

Figure 8: Aid Funded Project Expenditure by Development Aid Classification (DAC)



Source: MOF

10.2 Development Expenditure by Location**Table 19: Aid Funded Project (Expenditure by DAC) (\$m) by location**

Location	DAC Sector	DAC Classification	Actual 19/20 \$m	Budget Estimate 2020/21 \$m	Estimated Outturn 2020/21 \$m	Budget 2021/22 \$m	Projection 2022/23 \$m	Projection 2023/24 \$m		
Nationwide	Economic Infrastructure	Energy	0.59	1.23	0.50	0.68	0.50	0.50		
		Transport & Storage	14.29	13.42	5.09	23.54	48.98	46.02		
	Economic Infrastructure and Services Total			14.87	14.66	5.59	24.22	49.48	46.52	
	Humanitarian Aid	Humanitarian Aid	8.10	-	39.09	-	-	-		
		Humanitarian Aid Total			8.10	6.99	39.09	-	-	
	Multi Sector/Cross Cutting	Multi-Sector Aid	0.01	0.01	4.50	24.39	6.47	-		
		General environmental protection	9.93	7.51	11.32	-	0.27	0.07		
	Multi Sector/Cross Cutting Total			9.94	7.53	15.82	24.39	6.74	0.07	
	Production	Production (Agriculture)	0.88	0.25	0.03	0.42	0.46	0.25		
		Fishing	0.33	0.33	0.17	-	-	-		
	Production Total			1.21	0.58	0.20	0.42	0.46	0.25	
	Social Infrastructure a)	Government and Civil Society	4.11	1.35	7.22	9.34	7.50	3.58		
		Other Social Infrastructure and Ser	0.31	7.85	4.28	12.29	12.56	12.38		
		Social Infrastructure and Services (	4.55	9.74	0.96	16.96	22.55	21.83	
Social Infrastructure and Services (		9.07	55.50	44.39	11.45	7.10	7.10	
Population programs/policies and		0.06	-	0.23	-	0.23	0.23			
Social Infrastructure and Services Total			18.10	74.43	57.08	50.04	49.94	45.12		
Nationwide Total			52.21	104.18	117.79	99.07	106.62	91.96		
Tongatapu	Economic Infrastructure	Energy	25.87	19.17	4.92	11.48	3.55	4.65		
		Transport & Storage	1.12	3.79	1.72	3.19	1.69	2.15		
	Economic Infrastructure and Services Total			27.04	22.96	6.80	14.67	5.24	6.80	
	Multi Sector/Cross Cutting	Multi-Sector Aid	2.64	0.25	0.62	8.21	0.88	0.13		
		General environmental protection	6.09	8.09	2.54	-	-	-		
	Multi Sector/Cross Cutting Total			8.73	8.34	3.15	8.21	0.88	0.13	
	Production	Production (Agriculture)	1.07	0.80	0.05	1.94	4.13	-		
		Production (Tourism)	0.30	1.75	0.10	0.10	-	-		
	Production Total			2.07	3.84	0.47	2.04	4.13	-	
	Social Infrastructure a)	Government and Civil Society	10.31	20.22	7.94	10.88	5.40	5.98		
		Other Social Infrastructure and Ser	2.48	8.78	22.67	50.72	28.27	19.83		
		Social Infrastructure and Services (	3.87	6.79	2.23	1.43	1.45	1.32	
		Social Infrastructure and Services (	6.22	10.25	16.10	28.97	13.08	13.22	
		Population programs/policies and	0.00	0.42	0.02	-	-	-		
Social Infrastructure and Services Total			22.88	46.45	48.95	92.00	48.20	40.34		
Tongatapu Total			60.72	81.60	59.37	116.92	58.45	47.27		
Vava'u	Economic Infrastructure	Energy	4.90	3.30	1.67	6.25	1.70	1.70		
		Transport & Storage	-	0.50	-	-	-	-		
	Economic Infrastructure and Services Total			4.90	3.80	1.67	6.25	1.70	1.70	
	Humanitarian Aid	Humanitarian Aid	-	-	0.01	-	-	-		
		Humanitarian Aid Total			-	-	0.01	-	-	
	Multi Sector/Cross Cutting	General environmental protection	0.97	1.73	0.03	-	-	-		
		Multi Sector/Cross Cutting Total			0.97	1.73	0.03	-	-	
	Production	Fishing	0.02	-	0.01	-	-	-		
		Production Total			0.02	-	0.01	0.00	0.00	
	Social Infrastructure a)	Government and Civil Society	0.82	2.36	0.05	1.16	1.13	1.07		
		Other Social Infrastructure and Ser	0.00	0.24	-	0.14	0.00	0.00		
		Social Infrastructure and Services (	0.05	0.81	0.74	-	-	-	
		Social Infrastructure and Services (	0.03	-	0.01	-	0.01	0.01	
		Population programs/policies and	0.91	3.40	0.79	1.30	1.14	1.08		
Social Infrastructure and Services Total			6.81	8.93	2.51	7.55	2.84	2.78		
Vava'u Total			6.81	8.93	2.51	7.55	2.84	2.78		
Ha'apai	Economic Infrastructure	Energy	1.28	3.51	2.97	10.27	3.00	3.00		
		Transport & Storage	0.50	0.50	-	-	-	-		
	Economic Infrastructure and Services Total			1.78	4.01	2.97	10.27	3.00	3.00	
	Humanitarian Aid	Humanitarian Aid	-	-	0.01	-	-	-		
		Humanitarian Aid Total			-	-	0.01	-	-	
	Multi Sector/Cross Cutting	General environmental protection	0.65	1.02	0.01	-	-	-		
		Multi Sector/Cross Cutting Total			0.65	1.02	0.01	-	-	
	Production	Fishing	-	-	0.02	-	-	-		
		Production Total			-	-	0.02	-	-	
	Social Infrastructure a)	Government and Civil Society	0.34	1.45	0.06	0.54	0.54	0.52		
		Other Social Infrastructure and Ser	0.00	0.13	0.01	0.14	0.01	0.01		
		Social Infrastructure and Services (	-	-	0.00	-	-	-	
		Social Infrastructure and Services (	0.05	0.03	0.09	-	-	-	
		Population programs/policies and	0.02	-	0.01	-	0.01	0.01		
Social Infrastructure and Services Total			0.41	1.62	0.17	0.68	0.56	0.54		
Ha'apai Total			2.83	6.64	3.18	10.95	3.56	3.54		
Eua	Economic Infrastructure	Energy	0.95	1.30	0.90	3.55	0.40	0.40		
		Transport & Storage	2.00	0.50	-	-	-	-		
	Economic Infrastructure and Services Total			2.95	1.80	0.90	3.55	0.40	0.40	
	Multi Sector/Cross Cutting	General environmental protection	1.30	0.00	-	-	-	-		
		Multi Sector/Cross Cutting Total			1.30	0.00	-	-	-	
	Production	Production (Agriculture)	0.01	-	0.00	0.00	0.00	0.00		
		Production Total			0.01	-	0.00	0.00	0.00	
	Social Infrastructure a)	Government and Civil Society	0.01	0.90	0.01	0.50	0.90	0.90		
		Other Social Infrastructure and Ser	-	0.08	-	0.08	-	-		
		Social Infrastructure and Services (	0.01	0.40	0.10	0.35	0.35	0.35	
		Social Infrastructure and Services (	0.02	-	0.00	-	0.00	0.00	
		Population programs/policies and	0.04	1.38	0.11	0.93	1.25	1.25		
	Social Infrastructure and Services Total			0.04	3.18	0.11	0.93	1.25	1.25	
	Eua Total			4.30	3.18	1.02	4.48	1.66	1.66	
Niuatoputapu	Economic Infrastructure	Energy	1.60	1.00	1.00	1.00	-	-		
		Transport & Storage	3.00	0.50	-	-	-	-		
	Economic Infrastructure and Services Total			4.60	1.50	1.00	1.00	-		
	Social Infrastructure a)	Government and Civil Society	-	0.50	0.01	0.50	0.50	0.50		
		Other Social Infrastructure and Ser	-	0.68	-	0.68	-	-		
		Social Infrastructure and Services (	0.00	0.04	0.01	-	-	-	
		Social Infrastructure and Services (	0.01	-	-	-	-	-	
		Population programs/policies and	0.01	1.22	0.01	1.18	0.50	0.50		
	Social Infrastructure and Services Total			0.01	2.22	0.01	1.18	0.50	0.50	
	Niuatoputapu Total			4.61	2.72	1.01	2.18	0.50	0.50	
	Niuafu'ou	Economic Infrastructure	Energy	0.38	1.48	0.95	6.94	4.00	4.00	
			Economic Infrastructure and Services Total			0.38	1.48	0.95	6.94	4.00	4.00
		Social Infrastructure a)	Government and Civil Society	0.00	0.60	0.00	0.60	0.60	0.60	
			Other Social Infrastructure and Ser	-	0.23	0.00	0.26	0.13	0.13	
Social Infrastructure and Services Total			0.01	0.83	0.01	0.86	0.73	0.73		
Niuafu'ou Total			0.38	2.31	0.96	7.80	4.73	4.73		
Grand Total			131.86	209.55	185.83	248.95	178.35	152.43		

Source: MOF

11. ANNEX IV: TROPICAL CYCLONE GITA and TROPICAL CYCLONE HAROLD**Tropical Cyclone Gita**

Tropical Cyclone Gita hit Tonga in early February 2018, causing severe damage to the main island of Tongatapu and 'Eua. The government and its development partners secured a total of \$23.9 million to assist with the recovery effort. It took 3 years to complete the reconstruction for 301 beneficiaries and 15 evacuation centers. The reconstruction project was led by the Ministry of Infrastructure, with the support of the Ministry of Lands, Survey and Natural Resources, and the Ministry of Finance. The project is expected to end in June 2021.

Tropical Cyclone Harold

Tropical Cyclone Harold also struck Tonga on 9 April 2020 and affected Tongatapu, 'Eua, and Ha'apai. Private, public, and business infrastructure facilities were severely damaged albeit there was no loss of lives. A total of \$10.8 million was received from the Development Partners for the recovery works including \$10 million from the Pacific Catastrophe Risk Insurance Company.

The funds contributed to the construction of approximately 70 cyclone relief houses and supporting the recovery of the Tourism and Fisheries sectors. This project will also end in June 2021.

The Ministry of Finance, through its Resilient Development and Financing Division, continues to secure financial resources to support the Government's resilient agenda.

12. ACRONYMS

ADB	Asian Development Bank	FED	Foreign Exchange Dealers
AGO	Attorney General's Office	FIU	Financial Intelligence Unit
AIFFP	Australia Infrastructure Financing Facility Program	FSL	Food Security and Livelihood
AIP	Aid Investment Plan	FY	Fiscal Year (July – June)
	Anti-Money		
AML/CFT	Laundering/Counter Financing Terrorist	GAP	Good Agricultural Practices
	Asia Pacific Group on Money Laundering	GCF	Green Climate Fund
APG			
BHN	Basic Human Needs	GDL	Government Development Loan
BSP	Bank South Pacific	GDP	Gross Domestic Product
Cat DDO	Catastrophe Deferred Drawdown	GFS	Government Finance Statistics
CBD	Central Business Unit	GGF	Government General Fund
CCT	Conditional Cash Transfer	GGP	Grassroots Grant Project
CCTF	Climate Change Trust Fund	GLRF	Gita Loan Recovery Fund
CDs	Communicable Diseases	GPA	Government Priority Agenda 2018-2021
CEO	Chief Executive Officer	GPE	Global Partnership of Education
	Contingent Emergency Response Component	HMAF	His Majesty's Armed Forces
CERC			
CNY	Chinese Yuan	IDA	World Bank International Development Association
COVID-19	Novel Coronavirus Disease 2019	IFAD	International Fund for Agriculture Development
CSOs	Civil Society Organisations.	IFMIS	Integrated Financial Management Information System
CSU	Central Service Unit	IMF	International Monetary Fund
CT	Consumption Taxes	JNAP	Joint National Action Plan on climate change adaption and disaster risk management
	Climate Technology Centre and Network	JPRM	Joint Policy Reform Matrix
CTCN			
DAC	Development Assistance Committee	KPIs	Key Performance Indicators
DFAT	Government of Australia	KYC	Know your Customer
DFS	Digital Financial Services	LA	Legislative Assembly
DPP	Director of Public Prosecution	LTA	Land Transport Authority
DOD	Disbursed Outstanding Debt	MAFF	Ministry of Agriculture, Food and Forestry

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DRR	Disaster Risk Reduction	MDAs	Ministries, Departments and Agencies
DSSI	Debt Service Suspensive Initiative	MET	Ministry of Education and Training
EAP	East Asia and Pacific	MLW	Micro-loans for Women
ECE	Early Childhood Education	MOF	Ministry of Finance
EDF	European Development Fund	MOH	Ministry of Health
EDPO	European Development Policy Operation	MOI	Ministry of Infrastructure
EE	Energy Efficiency	MOJP	Ministry of Justice and Prison
ESA	Exchange Settlement Account	MOPF	Ministry of Police and Fire Services
ESCAP	Economic and Social Commission for Asia and the Pacific	MORC	Ministry of Revenue and Customs
ESSP	Economic and Social Stimulus Package	MOT	Ministry of Tourism
EU	European Union	MPE	Ministry of Public Enterprises
EXIM	Export Import Bank of China	MSME	Micro Small and Medium Enterprises
FAO	Food and Agriculture Organization	MPS	Monetary Policy Statement
FATF	Financial Action Taskforce	MTED	Ministry of Trade and Economic Development
FEC	Foreign Exchange Control	NAO	National Authority Office
NAP	National Action Plan	ROE	Return of Equity
NBFIs	Non-Bank Financial Institutions	RSE	Recognized Seasonal Employment
NCDs	Non-Communicable Diseases	S.A.M.O.A	SIDS Accelerated Modalities of Action
NEER	Nominal Effective Exchange Rate	SDG	Sustainable Development Goals
NEMO	National Emergency Management Office	SDR	Special Drawing Rights
NEWS	Nation – Wide Early Warning System	SET	Skills and Employment and Training
NGOs	Non-Government Organizations	SMA	Special Management Areas
NIIP	National Infrastructure Investment Plan	SNA	System of National Accounts
NNUP	Nuku'alofa Network Upgrade Project	SPAM	Strengthening Protected Area Management
NPGA	Non-Project Grant Aid	SPBD	South Pacific Business Development

NPL	Non-performing Loans	SWSE	Social Welfare Scheme for the Elderly
NPV	Net Present Value	TAL	Tonga Airport Limited
NRBT	National Reserve Bank of Tonga	TBS	Tonga Bureau of Statistics
NSCC	National Security Committee of Cabinet	TC	Tropical Cyclone
NSP	National Security Policy	TCC	Tonga Communication Corporation
ODA	Overseas Development Assistance	TC Gita	Tropical Cyclone Gita
OECD	Organization for Economic Cooperation and Development	TCIRP	Tropical Cyclone Ian Recovery Projects
OET	Overseas Exchange Transaction	TCRTP	Tonga Climate Resilient Transport Project Tropical
OIREP	Outer Island renewable Energy Projects	TDB	Tonga Development Bank
OISES	Outer Islands Solar Electrification Society	TESA	Tonga Education Support Activity
OPSC	Office of Public Service Commission	TF	Terrorist Financing
PACER	Public Access to Court Electronic Records	TFPP	Tonga Fish Pathway Project
PAMD	Projects and Aid Management Division of the Ministry of Finance	THPF	Tonga Health Promotion Foundation
PAT	Port Authority Limited	THSSP	Tonga Health Sector Support Program
PAYE	Pay As You Earn	TIOE	Tonga Institute of Education
PCRAFI	Pacific Catastrophe Risk Assessment and Financing Initiative	TJSSP	Tonga Justice Sector Support Program
PEs	Public Enterprises	TNIDP	Tonga Nationals Illicit Drugs Policy
PEFA	Public Expenditure and Financial Accountability	TNPS	Tonga National Payment System
PIC	Pacific Island Countries	TPD	Total Public Debt
PIRI	Pacific Islands Regional Initiatives	TPDF	Transport Project Development Facility
PFM	Public Financial Management	TPL	Tonga Power Limited
PMO	Prime Minister's Office	TREP	Tonga Renewable Energy Project
PMU	Project Management Unit	TRIP	Tonga Rural Innovation Project

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PMS	Performance Management System	TSDF II	Tonga Strategic Development Framework II
POS	Point of Sale	TTA	Tonga Tourism Association
PPE	Personal Protective Equipment	UN	United Nations
PRC	People Republic of China	UNEP	United Nations Environmental Programme
PREP	Pacific Resilience Program	UNFPA	United Nations Fund for Population Activities
PSC	Public Service Commission	UNICEF	United Nations Children Education Fund
RCF	Rapid Credit Facility	USP	University of the South Pacific
RDFD	Resilience Development and Financing Division	WASH	Water Sanitation Hygiene
REER	Real Effective Exchange Rate	WB	The World Bank
RIE	Regional Implementing Entities	WBG	World Bank Group
RMF	Road Maintenance Fund	WCCC	Women and Children Crisis Centre
ROA	Return of Asset	WHO	World Health Organization