

## Rāpopoto – Summary

- The new Government of Tonga under Prime Minister Hu'akavameiliku has released its first budget since coming to power at the end of 2021.
- It includes an increase in government spending, focused on private sector support, as well as steps intended to increase the efficiency, quality and affordability of government services.
- The circumstances surrounding Tonga's National Budget 2022/23 were unique due to the dual shock of the Hunga-Tonga Hunga-Ha'apai (HTHH) eruption and tsunami and the COVID-19 outbreak.
- The budget is optimistic about economic recovery, with 3.4% average growth expected over the coming year, while noting that risks and pressure points remain.

## Pūrongo - Report

The Government of Tonga estimates that loss and damage caused by the eruption and subsequent tsunami as being over TOP416.2 million (NZD 284.8 m), equating to roughly 36.4 percent of GDP.

Projected weakness in domestic revenue along with heavy demands in expenditure, will result in a TOP30.3 million (NZD 20.8 m) budget deficit for FY 2023 (Tonga's third consecutive budget deficit).

Despite a constrained fiscal environment, the Government of Tonga has increased its budget spend by 15 percent on the last financial year, largely driven by budget commitments to support improvements in access to quality government services.

The Government is prioritising direct support to businesses through the provision of highly concessional credit facilities, assisting with export opportunities and supporting domestic investment to reduce Tonga's heavy reliance on imports.

Several large infrastructure projects are also in the pipeline for FY2023 which will drive growth; the Nuku'alofa port upgrade project (TOP20 million/NZD 13.7 million), the Fanga'uta lagoon crossing bridge (TOP5 million / NZD 3.4 million allocated for FY2023 activities), Tonga climate resilient project (TOP14 million / NZD 9.6 million), and the reconstruction of homes, public infrastructure and Government facilities damaged by the HTHH eruption (TOP2.5 million / NZD 1.7 million).

Additionally, the Government has increased budget resources for social protection measures by TOP9 million (NZD 6.15 million) on the previous year. The changes will focus on increasing access to basic services namely, water tanks for 5,400 households and sanitation assistance for 2,124 households, increasing resilient housing assistance and more affordable housing finance.

Other measures include a monthly allowance for the elderly, and a top up of the allocation for micro credit loan facility for women. The Government will also be continuing to support increased access to low-cost credit for women working in manufacturing and handicrafts.

### Growth Outlook

The budget is optimistic about economic recovery, with 3.4 per cent average growth expected over the coming year driven by Government relief assistance, planned recovery reconstruction activities, other medium-term major development

projects, and a tourism recovery as borders reopen.

However, risks remain namely, elevated inflation and external debt. Tonga has experienced year-on-year inflation rise of 9.2 percent. The inflation rise has been driven by higher import prices, and disruption to supply conditions following the HTHH eruption and tsunami. Inflation is expected to remain elevated in FY 2023. The National Reserve Bank of Tonga notes that it does not have the ability to control inflation given it is driven by external economic forces.

Fuel costs increases are also significant with Tonga currently paying 72 per cent more for diesel than the average price paid last year. At current petrol and diesel import levels, Tonga is paying an additional NZD 41.4 million in fuel costs on the previous year.

Additionally, Tonga's debt repayments of loans to EXIM Bank are set to spike from 2024 to 2029 as Tonga commences repayment at an average of approximately TOP40 million (NZD 28 million) per year – equivalent of Tonga's total health or education budget. The International Monetary Fund's debt sustainability analysis indicates that Tonga's overall risk of debt distress remains high.

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