2009 National Budget Speech

By the Hon Lotoala Metia
Minister of Finance and Economic Planning

17th November, 2008

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Salutations

1. Honorable Speaker to the House of Parliament, His Excellency The Governor General and your good wife, Hon Prime Minister and your good wife, Honourable Members of Parliament and your good wives, President of the EKT, Ambassador of the Republic of China to Tuvalu, Pule Fenua o Funafuti and Community Leaders, Permanent Secretaries and senior government Officials, General Managers of Public Corporations, Heads of Public Bodies and NGOs, Distinguished Guests, Fellow Tuvaluans.

Introduction

2. In accordance with Section 165 of the Tuvalu Constitution, I am honoured to present the 2009 Estimates of Recurrent Revenue and Expenditure of the Government to Parliament. The Budget I am presenting today reinforces this Government's commitment to the goals set out in Te Kakeega II. These goals focus on providing more job opportunities, supporting economic growth, delivering better education and health services and improving our infrastructure while maintaining strong communities within our young nation.

3. Honorable members, we have recently celebrated our 30th Anniversary of Independence. We are proud of our achievements over these years. Our fiscal prudence and wise financial management have been central to the success in building our small nation. We have a reputation for getting by with limited resources and managing our finances through difficult times. This Budget will continue this tradition and build on it.

4. Honorable Members I will now take a few moments to set the scene for this year's budget.

5. Today we face possibly the most challenging international environment in our history. The Government has prepared this year's budget in the midst of unprecedented global financial turmoil. The world economy faces uncertain times in the wake of the Global Financial Crisis. No country will be immune from these impacts. Tuvalu must prepare to weather this storm.

6. The speed at which this crisis has unfolded presents many challenges. Tuvalu's national income will likely decline, as earnings from the TTF will remain suppressed for some time. Indirect effects might well be substantial. Already there are discussions about the potential impact on aid budgets, international trade and of course our other overseas investments such as the Falekaupule Trust Fund and the Tuvalu National Provident Fund. We will hope for the best but plan for the worst.

7. Despite this, we are in a good position to weather the storm. The Government has significant reserves in the Consolidated Investment Fund – the CIF. The National Bank of Tuvalu remains solid and well capitalized. Our investments are well managed and we are reducing our debts. The 2009 Budget aims to protect the community from these difficulties while maintaining our long tradition of fiscal discipline.

8. Despite the headwinds faced by the economy in recent times, the economy continues to grow. Estimates from the ADB indicate that the Tuvalu economy grew by 2.0% in real terms in 2007. This rate is expected to slow to 1.2% this year and recover slightly in 2009 to 1.6%. The slowdown in the economy this year is largely the result of the impact of higher food and fuel prices. While next year we anticipate a slight recovery, the global problems will probably limit this growth depending on the long-term impacts.

9. Tuvalu's inflation rate normally closely tracks that of its major trading partners, especially Australia because of the use of the Australian dollar. However, the impact of transportation costs to our isolated nation often means that price rises are exaggerated. The recent spikes in fuel prices have had a major impact on the annual inflation rate that rose to an annualized rate of 13.4% in August.

10. Everyone has felt the impact of high fuel and food prices, Government included. Costs for the inter-island shipping fleet have skyrocketed. The Government has provided a subsidy to Tuvalu Electricity Corporation – TEC - so that electricity can remain affordable. While recent falls in the world fuel price are encouraging the falling Australian dollar means that we are still paying historically high prices and will likely have to deal with these higher prices from now on.

Tuvalu Trust Fund

11. Honourable members, I have mentioned our reputation for fiscal prudence. A cornerstone of this reputation comes from arguably our most successful project in our short history – the Tuvalu Trust Fund.

12. The Global Financial Crisis has had a major impact on the performance of the Tuvalu Trust Fund. After delivering a substantial distribution of $8.5 million last year the fund has fallen 13.3% below its maintained value as at the end of September 2008. While this is disappointing the performance of our professional managers and a balanced investment strategy should shield us from the full impact of the Global Financial Crisis. The long-term investment strategy of the TTF is designed to cope with such events, so with prudent fiscal policy we hope to get through these current difficulties.

13. The market value of the TTF at the end of September stood at $94.5 million while the maintained value had risen to $109.0 million. The maintained value has increased because of additional contributions from Tuvalu - $1.1 million, Australia - $2.4 million and New Zealand - $0.9 million. This has the effect of increasing our sustainable drawdown from the CIF.

14. Honourable members, it is worth noting that because of these additional contributions and high inflation in Australia the maintained value has increased substantially. Hence, despite the fall in the market value, long-term returns from the TTF are likely to be higher because of these additional contributions. As a result, the sustainable distribution has increased to $4.4 million for 2009 based on the 4% of the TTF maintained value as recommended by the TTF Advisory Committee.

CIF Contributions

15. In August this year, the fiscal pressures placed on the Government by the increase in world food and fuel prices prompted us to approach Australia and New Zealand for

budget support. These pressures have only increased with the sudden worsening of the Global Financial Crisis in September and October. As a result the Government faces an extended period of no income from the TTF. The reserves of the Government in the CIF then become critical to weathering the storm.

16. It is my pleasure to announce to the Members today that both New Zealand and Australian Governments have agreed to provide budget support to the Government through one-off contributions to the CIF. The outgoing New Zealand Prime Minister Helen Clark wrote to our Prime Minister on 4 November confirming a A$3.7 million one-off contribution to the CIF. The Australian High Commissioner to Tuvalu, James Batley has also proposed a $1.25 million contribution to the CIF.

17. On behalf of the people of Tuvalu I would like to warmly thank both Australia and New Zealand for these contributions. This support will help us to maintain essential Government services for the most vulnerable in the community. However, I would also stress that this is a strong vote of confidence in the prudent financial management of this Government.

The Budget setting

18. Setting the framework for the 2009 Budget was extremely challenging. Whilst the many economic and social obligations compete for our limited financial resources, the international developments as well as domestic factors will always affect the budget. Among the major factors affecting the 2009 budget are:

- High domestic inflation resulting from increased energy, transport and food prices;
- Severe volatility of exchange rates, most importantly the A$/US$ exchange rate;
- Implementation of the Government's tax reforms due to start in July 2009;
- The ability of Government to contain costs in areas such as the Tuvalu Medical Treatment Scheme, scholarships and inter-island transportation;
- The impact of increases in world food prices on consumers;
- The ability of the Government to deal with its debt obligations;
- The expectation that the TTF will not deliver an automatic distribution for at least one more year; and
- How to set fiscal policy in order to sustainably manage the CIF in this environment.

19. Underpinning the budget are the Government's efforts to improve financial management. The Ministry of Finance has instituted a comprehensive programme to better manage and account for budgetary expenditures, improve revenue collection and control expenditure. On-the-job training for all executive officers of Ministries in the handling of vote books, budget reconciliations, and reporting continues to be a priority. We continue to focus on (i) improved estimates of revenue and expenditure (ii) better monitoring and reporting through the ACCPAC financial management information system; (iii) improved risk management strategies for the budget including better management of foreign exchange; and (iv) controlling the debt position of Government.

2008 Budget Performance

20. Honourable Members, as you will recall from last year, the 2008 Budget projected a surplus of $2.4 million. This surplus was the result of the anticipated grant from the ADB dedicated to debt repayments. After allowing for this the government budgeted for essentially a balanced budget in 2008.

21. However, at this point in the year the revenue and expenditure trends indicate a probable deficit of approximately $1.7 million. There are still significant variables that could affect the final outturn such as the size of the fishing license fees from the US Treaty that should be received next month.

22. Based on the figures we have to date I can report that revenues so far this year have been slightly down on estimates. Tax revenues budgeted at $6.8 million are forecast to reach approximately $6.3 million. Dividend, interest and rent earnings are up significantly as we have included interest on the CIF which was excluded from the original budget numbers. The result is revenue of approximately $1.4 million up from a budget of $150,000. The Marine Department revenues and Other charges are down on the expected budget though it is hoped that these will recover somewhat before the end of the year. Meanwhile the appreciation of the A$ versus the US$ earlier in the year impacted negatively on the revenues from the .tv marketing agreement, despite the recent $A depreciation.

23. Grants received by the government are demonstrating considerable variation from budget. No EU grants were budgeted for 2008 though revenues in the order of $0.8 million are expected having been delayed from last year. Revenue from the Japan Fuel Grant has been budgeted at $0.9 million but no revenue has so far been received because of the late receipt of the fuel. This has also been complicated by high fuel prices that have meant that both TEC and Marine are unable to pay for the fuel because of the impact of the high prices on their budgets. The intention was that both TEC and the Marine Department would buy the donated fuel from the Government, thereby booking it as revenue.

24. However, the major reason for the anticipated deficit is over-expenditure as a result of the high fuel prices and over spending on the Tuvalu Medical Treatment Scheme - TMTS. This has resulted in expenditures on Goods and Services increasing from the budget of $3.5 million to an anticipated $5.5 million. To offset some of this overspending we have restricted other areas of spending where they will have least impact on the community.

25. While the expected deficit is disappointing, the Government is in a good position with the healthy balance of the CIF, which will rise to more than $17.0 million, and the foreshadowed improvements to financial management that will help us contain future spending.

2009 Budget

26. Honourable Members, the Budget I present to you today includes $33.0 million in core spending. This includes $26.0 million in recurrent spending and $7.0 million of Special Development Expenditures or SDEs. This spending is based on those priorities set out in the Te Kakeega II. Complementing this spending is the estimated assistance from our extra budgetary assistance from overseas development partners expected to be approximately $14.5 million.

27. Total revenues for 2009 are $27.7 million. Of this amount tax revenues are expected to remain at around $6.7 million in 2009. The estimates for the upcoming budget year are complicated by the changes to the tax regime I have just mentioned. We hope that in future years that the new tax system should lead to real revenue growth.

28. Other major revenue sources are $5.6 million from fish licensing, including $0.2 million from the PDF. These revenues are dominated by revenues from the US Treaty but include substantial revenues from Korea, Taiwan and Japan. The Government will receive a minimum of $2.2 million from dotTV. Both the dotTV revenues and fishing revenues are affected by the exchange rate between the US dollar and the Australian dollar. For our forecasts we have taken a conservative estimate for this exchange rate of $1.10 to the US dollar.

29. The Budget also anticipates $3.8 million from Other charges, which includes Marine Department revenues and $8.9 million from aid grants including $6.2 million from the Republic of China and $2.2 million from the ADB Grant.

Financing the Budget

30. With revenues of $27.7 million and expenditures of $33.0 million the 2009 Budget anticipates a deficit of $5.3 million. This figure needs to be balanced against the sustainable financing available from the CIF, which in 2009 is $4.4 million. The resulting adjusted deficit is approximately $1.0 million. This deficit is justified in a time of extremely tough circumstances.

31. The projected deficit from the MTFF for 2009 was $2.3 million after allowing for the sustainable draw down from the CIF. After the Government's difficult work preparing the budget the deficit has been whittled down to $1.0 million through thoughtful reductions in expenditure.

32. As a result the Government will meet its stated macroeconomic goal in the Kakeega that budget deficits should not exceed 2-3% of GDP. The projected 2009 deficit amounts to approximately 3% of GDP and should remain around this level in 2010 and 2011. However the Government is mindful that even allowing for the balance of the CIF rising to $17.0 million, the Government faces the prospect of this buffer dwindling as we can not expect a distribution from the TTF for 2009 and 2010.

Budget highlights

33. Mr Speaker, I do not intend to outline the whole budget here today. But I would like to identify the highlights and some new initiatives. Let me now briefly list some key aspects of the 2009 Budget.

Expenditure Growth

34. As mentioned above the 2009 Budget includes $33.0 million in core expenditure, which represents an increase of almost 30% over the 2008 Budget. The majority of this increase comes through our SDE budget, which has expanded from $2.2 million to $7.0 million. Meanwhile the recurrent budget has also experienced an increase of 12.0%. Reflecting our high priorities. Fore example, the Ministry of Health will have an increase in its

recurrent budget of 24.4%, while both primary and secondary education increase their budgets by 15%.

35. The large increase in SDE expenditure is a result of three things (i) the untying of ROC funds which I will expand on shortly; (ii) the ADB grant of $2.2 million for paying off outstanding debts; and (iii) a $2.0 million investment in outer-islands projects.

Republic of China

36. I would like to take this opportunity to thank our good friend the Republic of China and the assistance they provide to the Government. In 2009 they have agreed to provide their grant assistance entirely as budget support. This provides the Government with much greater flexibility in its financial management. Direct budget support grant assistance in 2009 is $6.2 million, which has allowed us to expand our SDE program by around $1.8 million to include projects previously considered as XB.

Debt Position

37. Honorable Speaker, this Government inherited a difficult debt situation. We are doing our best to address the debt problems by paying down debt and living within our means. Our public debt is dominated by liabilities to the NBT, the ADB and European Investment Bank.

38. The gross value of public debt is estimated to be $17.3 million as of the end of 2008, which is of the order of 44% of GDP. In net present value terms the debt to GDP ratio is approximately 36%. To help manage this situation the government is nearing the finalization of a US$3.24 million program grant with the ADB to settle outstanding debts. We expect to receive US$1.24 million this year and another $2.0 million in 2009 to pay down our liability for the Outer Island Suspense Accounts with the National Bank of Tuvalu. This will reduce our gross debt to a level of approximately 34%. The ADB grant will include technical assistance to set debt management policies for the future to keep our debt at manageable levels.

State Owned Enterprise Reform

39. As part of the debt reform measures the ADB will also help the Government to manage its State Owned Enterprises better. These Government's SOEs deliver many services to the community including electricity, telecommunications and banking. The management of these enterprises has an indirect but definite impact on the Government's financial position. Better management of SOEs will help the government's service delivery and financial health. The Government will therefore develop (i) a SOE Policy and Plan; (ii) an SOE Act; (iii) a Risk Management and Mitigation Strategy; and (iv) an analysis of private sector growth potential.

Tax Reforms

40. The proposed tax reforms presented to the previous session of Parliament are due to come into effect on 1 July 2009. These reforms will include reductions in income taxes, a Tuvalu Consumption Tax to replace sales tax and new excise duties on certain imports. The reforms will create a more supportive business environment by encouraging saving and rewarding salary earners. It will provide a more equitable taxation system, and be

supported by enhanced revenue management that should encourage private sector activity and investment. The reforms support our readiness to participate in the PICTA regime with funding and technical assistance generously provided by ADB and AusAID.

Public Service Wage Increase

41. Our public servants are the backbone of the Government. We value greatly the teachers, nurses, police as well as the office workers that keep the machinery of Government working. In this year's budget we will provide a wage increase of 6% for all public servants with the wage increase to take effect from 1 January 2009.

42. Wage levels have not increased for a number of years while the cost of living has risen significantly. This proposed increase will help public servants cope with the recent rises in food and fuel prices. Of course we would like to increase wages more, but we must be fiscally responsible and we believe we have struck a sensible balance. Also the wage increase precedes a detailed review of the public service wage and salary structure due early next year which will look at this issue in more depth.

Food subsidy

43. The rises in food prices experienced in recent months have affected everyone in the country. Staples such as rice, flour sugar and cabin crackers have been particularly impacted. Already the Price Control Board has limited mark ups on these items to 15% of their costs. To complement this work the Government has set aside $500,000 in the 2009 budget as a food subsidy to keep prices of these staples affordable to all. The Government has set up a Food Task Force to look into how the subsidy might work to ensure that the benefit of this subsidy goes to the community. This task force will report back to the Government as soon as possible.

Outer-island projects

44. Central government cooperates with each Kaupule for increased autonomy, assisted through the FTF resources and capacity development to raise the quality of basic service delivery in the Outer Islands, create new development opportunities, and generally improve Outer Island living. Reflecting the importance of the islands, in the 2009 Budget the Government has dedicated $2.0 million to projects identified and prioritized by Kaupule ranging from churches, office buildings, community infrastructure and providing other island-based services that directly create employment and stimulate private sector development.

Tuvalu Medical Treatment Scheme

45. Honorable Members, the operation of the Tuvalu Medical Treatment Scheme continues to place stress on the Government's fiscal position. As mentioned earlier, this Scheme has experienced severe over spending in 2008 but the Ministry and the Government are acting to reduce these costs. The Ministry has commenced a detailed Health Expenditure Review, including the TMTS. This review, supported by AusAID and the World Health Organization will put in place policies to ensure better control of expenditure on the Scheme and health expenditure in general. In the 2009 Budget the Government has doubled the allocation to the TMTS to $1.0 million to help meet those urgent medical

cases that can not be treated in Tuvalu but qualify for treatment under guidelines the review will determine.

Inter-island transport

46. The provision of inter-island transport is a critical service to support the outer-islands. The two inter-island vessels are the lifeblood of the nation. Running these services regularly and efficiently is critical to maintaining economic and social well-being of our island communities. This year the services have been seriously restricted by the increasing fuel prices. To cope with the increase in fuel prices the Government has ensured sufficient fuel budgets for the Manu Folau and Nivaga II for 2009 by increasing the fuel budget by almost 40% to a combined total of $1.2 million. The maintenance budgets for these vessels will also increase to ensure the viability of these critical pieces of infrastructure with over $700,000 dedicated to this purpose.

Overseas employment

47. Employment overseas, and associated emigration, is likely to become increasingly important. The Government continues to support overseas employment opportunities to maintain much needed foreign exchange earnings and absorb those who enter the labour market each year, given the limited labour opportunities in Tuvalu. Tuvalu is also continuing to negotiate with the New Zealand's Government for better terms of the Recognized Seasonal Employer Scheme to strengthen work compensation and living and workplace standards.

Tuvalu Embassy in Brussels

48. Mr Speaker, it is my pleasure to draw members attention to the inclusion the Tuvalu Embassy in Brussels in the 2009 Budget. This mission, that opened this year, will represent Tuvalu to the EU and European States with the aim to build a strong Tuvaluan presence in Europe and develop ties with traditional and non-traditional donors. The Mission will seek additional assistance from the European Commission, seek job opportunities for Tuvalu seafarers and represent Tuvalu at the United Nations and related organizations in Geneva. This mission is being supported by the Republic of China with a grant of $200,000 which is 64% of the total budget for this Office.

Education and Scholarships

49. Te Kakeega priority of education continues in the 2009 Budget. As mentioned earlier, primary and secondary education will increase their shares of the recurrent budget in the 2009 Budget while overall scholarship will also grow. The In-service scholarship allocation increases from $500,000 to over $700,000 in 2009. Meanwhile the government maintains its commitment to providing tertiary education to our school graduates with pre-service scholarships being maintained at approximately $1.4 million. Part of the increase in the budget for scholarships stems from the decision to increase student support payments by 5% in 2009 as a result of a detailed review of these payments.

Concluding Remarks

50. Mr. Speaker, Hon Members of Parliament, fellow Tuvaluans, our Vision is a healthier, more educated, peaceful and prosperous Tuvalu. This requires enhanced public financial management, a rightsizing of the public sector, and improvements in the business regulatory environment to provide a platform for economic growth. This will insure us against volatility as we adopt innovative policies and embrace economic and structural reforms. We cannot do everything. We will adopt a more targeted approach to dealing with identified priorities. The choices we make now will determine our fate.

51. Today I have only highlighted some of the most prominent issues in the 2009 Budget. The Budget contains funding for many ongoing programs that continue to provide education and health services, law enforcement, agricultural and fisheries to name just a few. These are all priorities as set out in Te Kakeega II. We have recently completed an update of our progress on Te Kakeega and this is outlined in Te Kakeega Matrix that we will table in this session.

52. The 2009 National Budget sets a plan for the year ahead but has within it flexibility for the future. I believe the 2009 budget is fiscally sound and expenditures are prudent, and consistent with our vision and that of the Kakeega development process, which provides a 'springboard' for shaping Tuvalu's longer-term future.

53. Finally I would like to take this opportunity to express my appreciation to everyone involved in the preparation of the 2009 National Budget. My thanks go to my Cabinet colleagues, members of the Development Coordinating Committee, Ministries, the Core Budget Team and the staff of the Planning and Budget Department. It was demanding work but the commitment and hard work has paid off and warrants a huge Fakafetai, Fakamaloo.

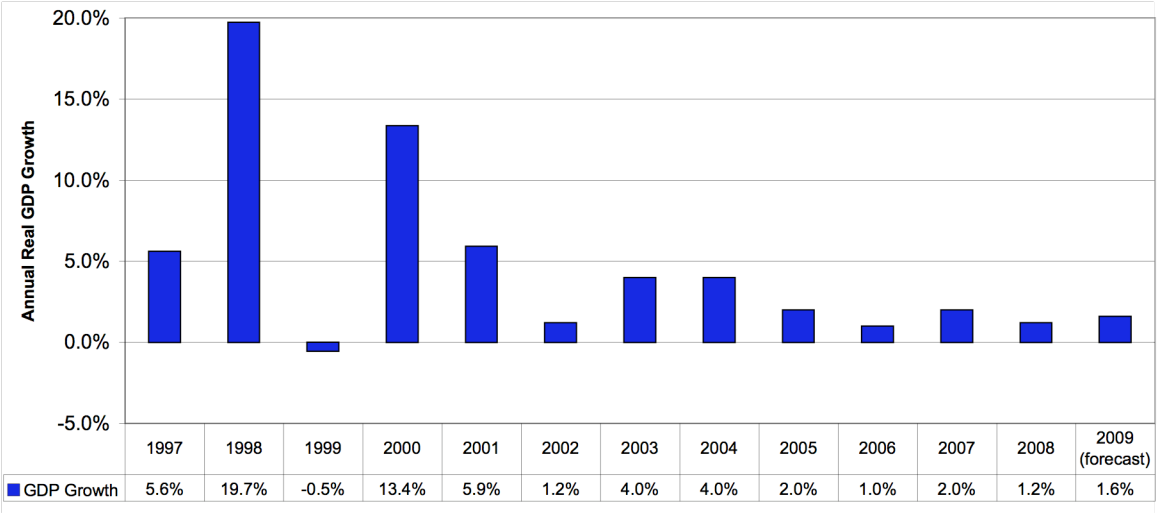
54. I now commend the 2009 Budget to the Parliament.

FAKAFETAI LASI

TUVALU MO TE ATUA

Annex: Additional Information

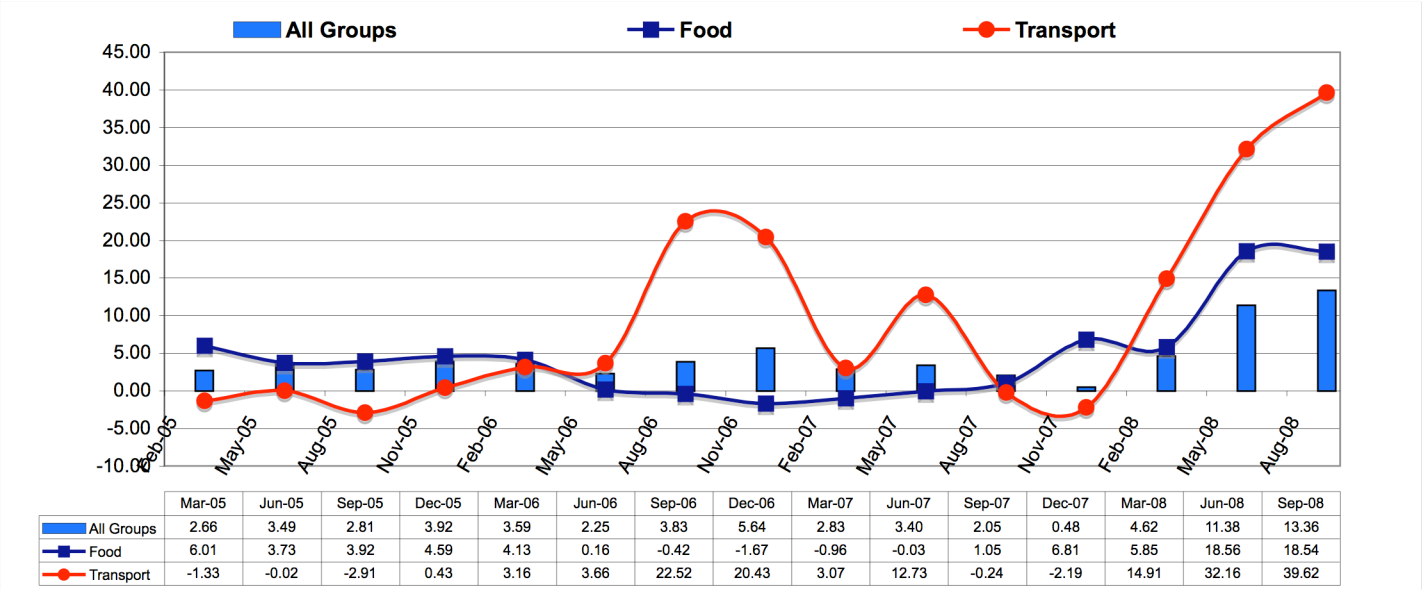
Figure 1: Real GDP Growth, 1997-2009



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 (forecast)
GDP Growth	5.6%	19.7%	-0.5%	13.4%	5.9%	1.2%	4.0%	4.0%	2.0%	1.0%	2.0%	1.2%	1.6%

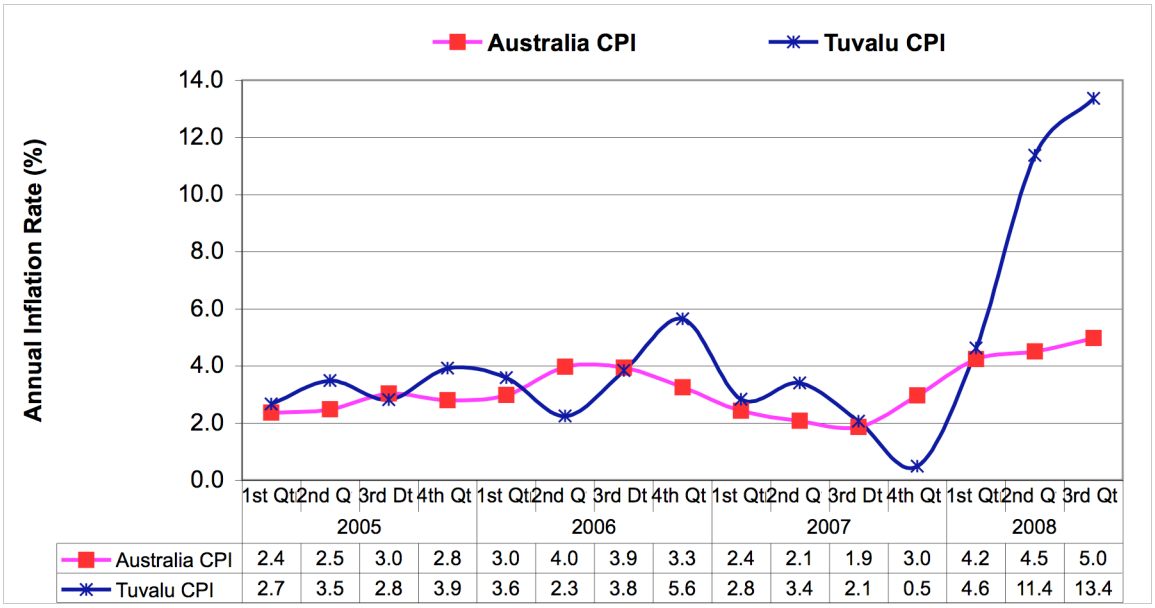
Source: Central Statistics Division, ADB Asian Development Outlook 2008 – Update

Figure 2: Tuvalu Annualized CPI, 2005 to present – All items, food and transport



	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
All Groups	2.66	3.49	2.81	3.92	3.59	2.25	3.83	5.64	2.83	3.40	2.05	0.48	4.62	11.38	13.36
Food	6.01	3.73	3.92	4.59	4.13	0.16	-0.42	-1.67	-0.96	-0.03	1.05	6.81	5.85	18.56	18.54
Transport	-1.33	-0.02	-2.91	0.43	3.16	3.66	22.52	20.43	3.07	12.73	-0.24	-2.19	14.91	32.16	39.62

Figure 3: Australia and Tuvalu Annualized CPI, 2005 to present



	2005 1st Qt	2005 2nd Q	2005 3rd Dt	2005 4th Qt	2006 1st Qt	2006 2nd Q	2006 3rd Dt	2006 4th Qt	2007 1st Qt	2007 2nd Q	2007 3rd Dt	2007 4th Qt	2008 1st Qt	2008 2nd Q	2008 3rd Qt
Australia CPI	2.4	2.5	3.0	2.8	3.0	4.0	3.9	3.3	2.4	2.1	1.9	3.0	4.2	4.5	5.0
Tuvalu CPI	2.7	3.5	2.8	3.9	3.6	2.3	3.8	5.6	2.8	3.4	2.1	0.5	4.6	11.4	13.4

Figure 4: TTF Value, Distribution and CIF Balance 1987 to present

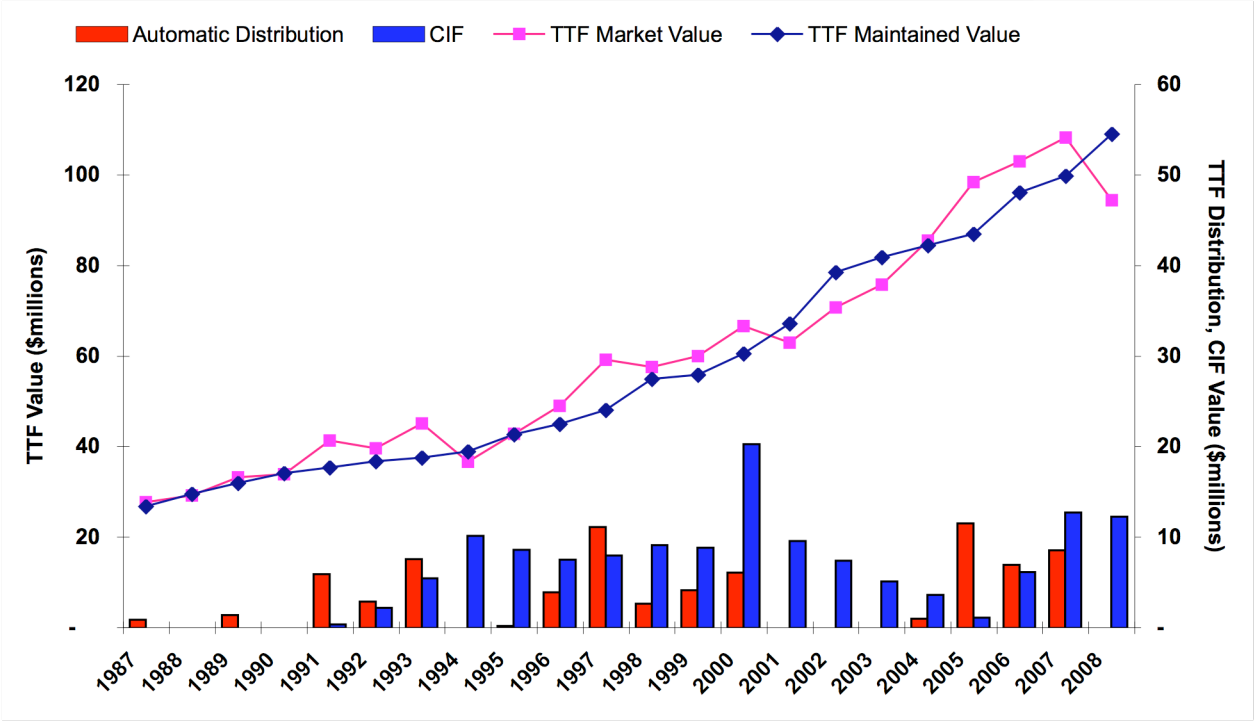


Figure 5: World Oil Prices in USD & AUD: 2006 – 2008

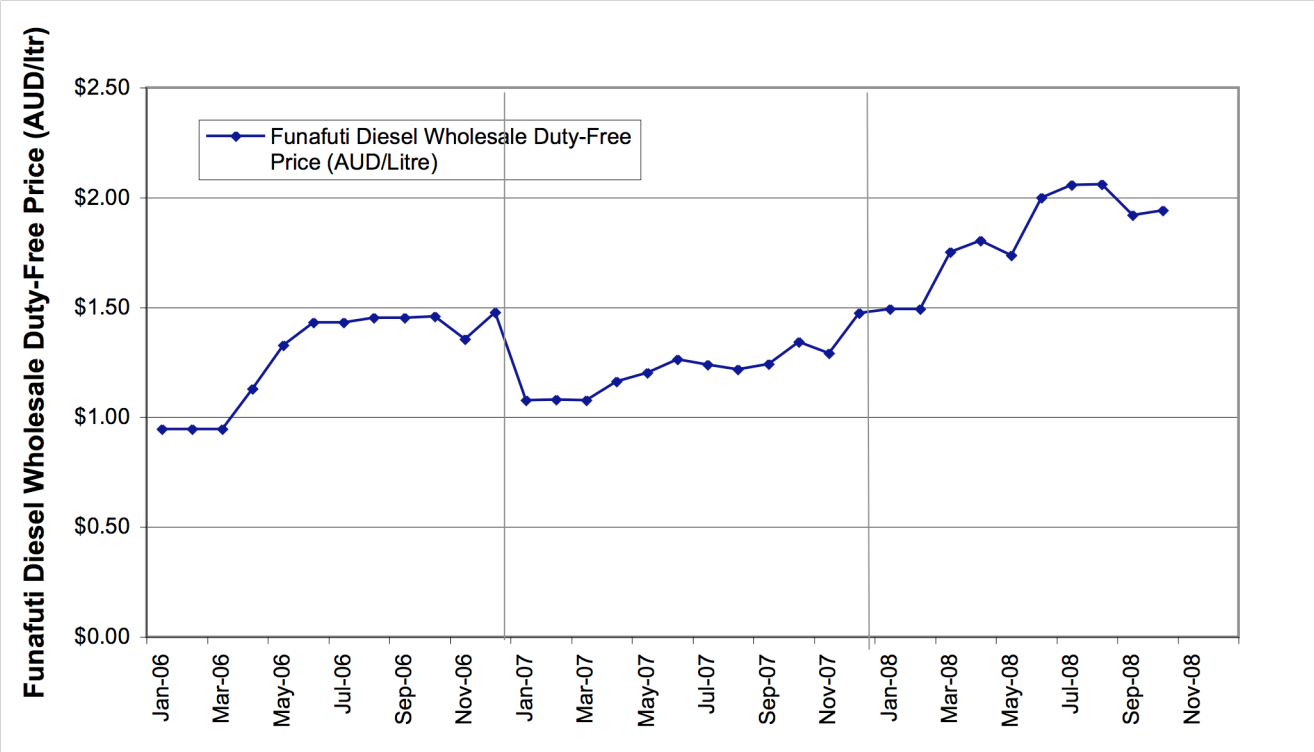


Figure 6: Funafuti Diesel Wholesale Duty-Free Price: 2006 – 2008

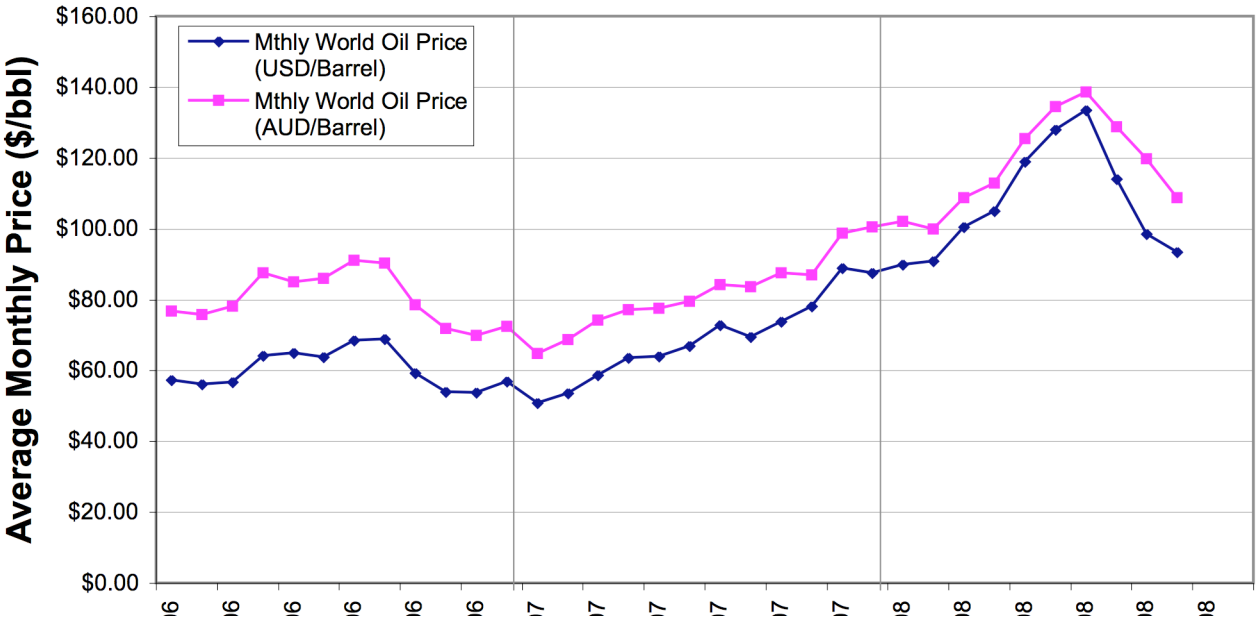


Figure 7: US Dollar vis-a-vis AUD: 2006 – 2008