

**2010 Budget Speech:  
By the Hon Lotoala Metia  
Minister of Finance and Economic Planning**

**Salutations**

1. Honorable Speaker to the House of Parliament and also the Acting Governor General, , 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, representatives of the private sector and NGOs, Distinguished Guests, Fellow Tuvaluans.

**Introduction**

2. In accordance with Section 165 of the Tuvalu Constitution, I am honoured to present the 2010 Estimates of Recurrent Revenue and Expenditure of the Government to Parliament.
3. Honourable members, the past year has seen the world economy shaken to its foundations. The impacts of the Global Financial Crisis have affected all corners of the globe. When I presented to the 2009 National Budget last year we had little idea how this crisis would affect Tuvalu. There is still some uncertainty about the full impact on Tuvalu from the Crisis, though the great fears held last year for the global economic system have faded.
4. It is with guarded optimism that we can approach 2010. The world economy is recovering slowly. Financial markets and the value of the Tuvalu Trust Fund are growing again. Our development partners are maintaining or even increasing their assistance to Tuvalu. But there are still risks.
5. The recovery in financial markets appears fragile, so we do not expect any distributions from the Trust Fund for at least two years. The rising Australian dollar is depressing our foreign revenues. World food and fuel prices are rising again. This is the environment in which the 2010 Budget has been prepared.
6. Honourable members, let me now take a few moments to review our recent economic performance. I am happy to announce that new figures produced by the Central Statistics Division and the International Monetary Fund show that the economy has grown in the past three years. Between 2003 and 2005 Tuvalu experienced a number of years of falling GDP. But since then the economy has regained momentum with positive real growth in recent years.
7. In 2006 the economy grew by an impressive 6.6% in real terms and 4.9% in 2007. Despite the headwinds caused by the spike in food and fuel prices and the Global Financial Crisis the economy still maintained positive real growth of 1.3% in 2008. Forecasts are that the economy will continue to grow in 2009 but at a slower pace. Given all that has happened to the world economy over the past year this can be considered a positive result.
8. It is also good to see that prices of fuel and food have fallen after the hardship felt last year. Inflation has fallen substantially over the past year as global prices collapsed. Last year the annual inflation rate in Funafuti, as measured by the Consumer Price Index, was a worrying 13.4%. But over the next 12 months prices have fallen by 2.5% across all items. This has provided much needed relief to the community and Government.

## **Financial Reforms**

9. Mr Speaker, this Government is a reformist Government. It has endorsed and implemented many reforms of note. These reforms are not glamorous and possibly not even popular but they are needed. The range of reforms we have introduced, and continue to introduce, underpin the management of public finances.
10. The tax reforms I introduced into Parliament last year came into effect in July this year. These reforms have multiple purposes including making Tuvalu compliant with Pacific Island Countries Trade Agreement or PICTA. But the main reason for introducing these reforms was to give Tuvalu a tax regime for the 21<sup>st</sup> Century – a tax regime that is more efficient and can deal with the requirements of an increasingly globalised world.
11. Cabinet has recently endorsed a comprehensive policy to reform public enterprises. This acknowledges the importance of public enterprises to the economy in terms of services and employment. Complementing the policy is new legislation that I will introduce in this session to establish the legal framework for our reforms. There is a link between this and private sector development as the Government will look closely at all its commercial operations to investigate the potential for greater private sector participation in areas currently occupied by the public sector. I am confident that the public enterprises and the private sector will rise to the challenge of improving their performance as part of a partnership with all stakeholders including Government.
12. The Government has also endorsed a Debt Risk Management and Mitigation Policy. This policy will ensure that all future borrowing is subject a detailed process involving financial analysis, consultation, Cabinet approval and eventual approval by Parliament. I will be tabling this policy during this session for the information of the members.
13. In the wake of the Global Financial Crisis, we have learned the need for strong regulation of financial institutions and banks. At present, Tuvalu does not have banking legislation. During this session I will introduce the Banking Bill 2009 to regulate our financial institutions. This proposed legislation will put in place the legal framework for managing our financial institutions in the Tuvalu context. It will adhere to the internationally accepted Basle Core Principles of banking regulation.
14. Finally, the Government is also seeking membership of the International Monetary Fund and the World Bank. We have just farewelled the IMF membership mission that assessed our application. I am happy to say that our membership application is progressing well and we hope to formally sign the instruments of agreement in the first half of 2010, contingent on further scrutiny by the Government and Parliament. As a result we would then become the newest and smallest member of the IMF and World Bank. This will open up greater opportunities for technical assistance and projects but also place responsibilities on us to provide regular information and meet international guidelines on management of our financial system. But this is a step well worth taking for the long-term benefits for our nation.

## **Tuvalu Trust Fund**

15. As mentioned above the Tuvalu Trust Fund has taken the brunt of the impacts from the Global Financial Crisis. Last year the fund fell in value so that it was unable to provide any distribution for the 2009 Budget. The Fund had fallen 13.3% below its maintained value which was \$109.0 million while the market value had fallen to \$94.5 million. As financial markets plummeted towards the end of 2008 and early 2009 this gap widened and there were fears for the long term value of the Fund. However, in the past 6 months the Fund has staged a remarkable recovery as a consequence of this rebound in financial markets and skilled fund management.

16. Despite this, at the end of September 2009 the fund had still not recovered to last year's levels. It was still 14.2% below its maintained value of \$112.5 million at the end of September 2009 but well above its low in March this year when the value had collapsed to 22.7% below the maintained value. At that point the market value had fallen to \$84.9 million. While prospects for recovery in the world economy have improved history suggests that a distribution from the Trust Fund is still probably three years away.

### **Contributions to the Tuvalu Trust Fund and Consolidated Investment Fund**

17. While the overall value of the TTF may have been falling the Government has still been building its capital and investing for the future. In January 2009 the Government made the last of the contributions to the Trust Fund under the European Union Development Support Programme. This resulted in a contribution of slightly more than \$1.0 million. Additionally, the TTF also received a contribution from the Tuvalu-Australia bilateral program of \$1.3 million. As a result the maintained value of the Fund stood at \$112.5 million at 30 September 2009.

18. Honourable members, in last year's budget speech I announced commitments from the New Zealand Government and the Australian Governments to provide budget support to our Consolidated Investment Fund. This commitment was in response to our request to support the Government's budget that was straining under the impact of the high food and fuel prices.

19. I would like to thank the New Zealand Government for their contribution of \$3.7 million which we received into the CIF late in 2008. I would also like to thank the Australian Government for their contribution of \$750,000 in response to the same request. The result of these contributions has meant that the CIF has maintained a healthy balance throughout this year and we have coped with both the spike in food and fuel prices last year but also the subsequent Global Financial Crisis. But we remain aware of the challenges that lie ahead.

### **The Budget Setting**

20. Setting the framework for the 2010 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 2010 budget are:

- The impacts of exchange rates on the Government's fiscal situation, most importantly the A\$/US\$ exchange rate;
- The ability to accurately estimate tax revenues given the recent implementation of the Government's tax reforms;
- Fishing license revenues for the Government budget and the need to remain conservative about these estimates;
- The ability of Government to contain costs in areas such as the Tuvalu Medical Treatment Scheme;
- The lingering impact of the spike in food and fuel prices and the potential for these high prices to re-emerge;
- The expectation the TTF will not deliver an automatic distribution to the CIF until 2013; and
- The ability of the Government to deal with its debt obligations and manage the CIF to cope with the lack of TTF distributions.

21. Underpinning the budget are the Government's efforts to improve financial management, some of which I have already outlined. The Ministry of Finance has instituted a comprehensive program to better manage and account for budgetary expenditures, improve revenue collection and control expenditure.
22. As part of this program, the Treasury has expanded access to the Government's accounting system, ACCPAC, to line Ministries within the Government Building. This should improve the monitoring of the Government Budget during the year and ensure better control of expenditure. We are also investigating the possibility of integrating the budgeting and accounting system which will ensure more automated monitoring of the Government Budget. 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.

### **Recent fiscal performance**

23. The 2008 Budget result was notable with an underlying deficit of \$2.5 million which resulted in a surplus of \$1.5 million (or 4.3% of GDP) after allowing for a sustainable drawdown from the CIF. This was a positive outturn but was largely the result of windfall revenues from fishing licenses which came in at \$8.4 million or double the budgeted level. This concealed some concerns on our expenditure levels such as the overspending on the Tuvalu Medical Treatment Scheme, budgeted at \$1.0 million while reaching over \$2.0 million in 2008.
24. Forecasts for the 2009 result are also promising, with strong revenue performance again from fishing licenses. Expenditure on staffing is down significantly and is likely to result in significant savings to the Budget this year. These two factors seem to be combining to result in a projected surplus of approximately \$1.6 million or 4.6% of GDP. This means that we will keep our drawdown from the CIF to around \$2.0 million, well below the sustainable level of \$4.4 million. This places us in a better position in which to face the upcoming 2010 Budget year.

### **2010 Budget**

25. Honourable Members, the 2010 National Budget that I present today continues our tradition of fiscal prudence and investment for the future. As I have already mentioned we are aware of the difficulties that face us over the next few years with little or no income from our Trust Fund. But we are also mindful of the need for us to continue to invest for the future and support the local economy in these difficult times.
26. The Appropriation Bill will seek Parliament's approval of \$32.5 million in core expenditures. This is made up of \$28.7 million in recurrent expenditure and \$3.8 million in Special Development Expenditures (or SDEs). On top of this we estimate we will also receive around \$28.3 million in development assistance in 2010 from our development partners. All this expenditure is being directed to the priorities set out in Te Kakeega II.
27. Total recurrent revenues for 2010 are estimated at \$24.9 million which represents a minor decline from the budget last year. This is due to a combination of minor factors such as reduction in interest from our Consolidated Investment Fund as yields fall and the balance is drawn down, a slight fall in our estimates for company tax and other charges.
28. With respect to our biggest revenue items, fishing licenses and our ROC Grant we retain our estimates near last year's levels. Fishing licenses are anticipated to again yield \$5.6 million while the recurrent grants from our good friends the Republic of China will decline to \$5.7 million because of assumptions about exchange rates. Also we expect our revenues from our agreement to license the marketing of our .tv top level domain to remain at \$2.2 million.

29. Here I must raise a note of caution. The revenues I have mentioned above – fishing licenses, Republic of China Grant and .tv revenues – are largely denominated in US dollars. This makes the Government's revenues extremely sensitive to the changes in the Australian dollar – US dollar exchange rate. We started the budget process making a conservative assumption that the exchange rate will be \$1.10 to the US dollar over the year. However, the recent appreciation of the Australian dollar has eroded our original margin of safety. We cannot realistically forecast exchange rate levels but we would hope that the current rate does not appreciate much further but at least stays at its current levels so that our revenues are not materially affected.

### **Financing the Budget**

30. With revenues forecast at \$24.9 million and core expenditures of \$32.5 million the 2010 Budget anticipates a deficit of \$7.6 million. This figure needs to be balanced against the sustainable financing available from the CIF, which in 2010 is \$4.5 million. The resulting adjusted deficit is approximately \$3.1 million.
31. As a result the Government will exceed its stated macroeconomic goal in Te Kakeega II that budget deficits should not exceed 2-3% of GDP. The projected 2009 deficit amounts to approximately 8.6% of GDP but should fall in 2010 and 2011 to more manageable levels as the SDE expenditure returns to more normal levels.
32. While there may be some concern over the size of this deficit, the major part of this deficit is from another big investment in SDEs to provide for one-off expenditures including capital construction. The Government believes that it is important to support the economy with the many global concerns that could affect overall income in the economy. Hence it is not unreasonable for the Government to take up some of the slack in the economy if there is to be some slowdown in income levels.
33. The Government is mindful that even allowing for the balance of the CIF expected to be \$16.5 million at the beginning of 2010, the Government faces the prospect of this buffer dwindling as we can not expect a distribution from the TTF for 2011 and 2012 Budget years. The challenge for us is therefore to manage the budget until we receive another distribution from the Trust Fund.

### **Budget highlights**

34. 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 2010 Budget.

### **Expenditure Growth**

35. As mentioned above the 2010 Budget includes \$32.5 million in core expenditure, which represents a slight fall from the 2009 Budget, which was the highest on record. The 2009 expenditure levels were affected by the inclusion of a one-off ADB Grant that was included in the SDE budget. If this grant was excluded then spending this year would have increased by 5.3% over 2009 levels. Meanwhile the recurrent budget alone has experienced an increase of 10.0%. SDE expenditures remain at high levels with a Budget of \$3.8 million predominantly as a result of continued investment in our island communities with \$1.8 million for outer-island projects.

## **Republic of China**

36. I would like to take this opportunity to once again thank our good friend the Republic of China and the assistance they provide to the Government. In the current year they 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 2010 is \$5.7 million, which has allowed us to maintain a healthy SDE program and fund important components of the Government's recurrent budget. In addition during the Prime Minister's State visit to the Republic of China in February, the ROC Government provided a one-off US\$1.0 million grant to help Tuvalu cope with the Global Financial Crisis.

## **Debt Position**

37. Honorable Speaker, I have already outlined the Government's new policy for controlling its debt. The debt situation of the Government remains a concern but with the assistance of the Asian Development Bank we will pay down a significant proportion of our outstanding liabilities. Our public debt is dominated by liabilities to the NBT, the ADB and European Investment Bank.
38. Last year I mentioned that the Government was negotiating a US\$3.24 million program grant with the Asian Development Bank to settle a number of outstanding debts. In July this year we received US\$1.24 million as the first tranche of this grant. The Government is nearing the completion of a number of important tasks – a number of which require Parliamentary action - to receive the second tranche of US\$2.0 million. The first tranche was dedicated to paying down the Government liabilities with the National Bank of Tuvalu for the Outer Island Suspense Accounts. With the impending release of the second tranche this liability should be almost entirely extinguished.

## **Island Communities**

39. Mr Speaker, A constant theme of our Government has been the support of the Island Communities. In the current year we undertook a range of community projects that are helping to support community infrastructure. In 2010 we continue this theme through a number of initiatives which I will now briefly outline.
40. We recognize that the revenue raising opportunities for the Kaupule are limited. The central Government has an important role for supporting these revenues through its annual grants. In 2010 we have increased the annual Block Grant to all Kaupule by \$10,000 per Kaupule.
41. There are several initiatives which will support island communities in other ways. For example, in 2010 the Community Fishing Centres will receive assistance as a precursor to the Government handing these centres back to the Kaupule. This will be done in consultation with the Kaupule to ensure their readiness to take on this responsibility. To support this handover we will provide \$280,000 to support the Centres' Operations and Working Programs in 2010..Additionally in 2010 we will provide \$70,000 or \$10,000 per island for renovation of the centers.
42. For many years the Government has considered purchasing a landing craft to help support development on the outer-islands. In 2010 the Government intends to secure a landing craft with assistance from a variety of funding sources including the European Union. The Marine Department will ensure that the vessel will meet the necessary technical specifications to properly serve island communities. This landing craft will improve the ability of the Government to provide materials and supplies for outer-islands capital development.

43. Island Communities will also benefit from an additional grant of \$1.8 million for island community projects to build on the investments made in the current year. These funds will target key projects to support island communities.

### **Waste Management**

44. Another initiative the Government has incorporated into the 2010 Budget is the establishment of the Solid Waste Agency in the Ministry of Home Affairs. The Solid Waste Agency will become the Government agency responsible for waste collection and recycling throughout the nation. The European Union's EDF 10 will provide important capital and technical assistance to support the agency.
45. Of course we all know that the biggest waste management problem exists in Funafuti, so the project will focus in the capital. But all island communities will benefit from the introduction of new programs for waste management. The benefits of such programs are many and relate to public health, water and sanitation, tourism among many others. Of course these programs cost money, and the Government is committed to funding waste management on a sustainable basis. The Government will therefore consider and review all options for financing this program on an ongoing basis and incorporate a sustainable funding mechanism into future budgets.

### **Health Master Plan and Medical Treatment Scheme**

46. Health Services are critical to ensuring a healthy happy and productive population. It was with this in mind that the Government has endorsed a new Health Master Plan to focus our health services. In the 2010 Budget the expenditure in the Ministry of Health will increase by 20% on its 2009 level. This is largely due to the Government's commitment to fully fund its overseas referral services. The Tuvalu Medical Treatment Scheme allocation has increased by 50% to \$1.5 million in 2010 and should ensure that Tuvaluans have access to quality health care for chronic diseases. However, we are mindful of the costs of this program and the need to reorientate spending towards our efforts in primary and preventative care.

### **Japan Non-Project Grant**

47. Japan has been a great friend to Tuvalu over the years. The assistance that the Government of Japan has provided has ranged across many sectors - education, transport, energy and communications. In recent years we have benefited from the Japan fuel grant which has helped us to provide fuel for the nation. The fuel grant was expected to end this year but after lengthy negotiations and lobbying by the Government we are able to extend this for another year. So thanks to the generosity of Japan this grant will continue for a fifth year. Fuel to the value of 100 million yen will be provided to the Government for use by the Tuvalu Electricity Corporation (TEC) in 2010. For the first time this grant is being fully reflected in our budget as revenue for the Government corresponding with spending in support of TEC. This better reflects the generosity of Japan for which we are truly grateful.

### **New Zealand Consulate General**

48. A major initiative of the Government in 2010 will be the establishment of a permanent office in New Zealand in the form of a Consulate General. This office is probably overdue given the growing Tuvaluan population in New Zealand. This Office will provide full consular support for the Tuvalu Community in New Zealand in response to the increasing needs of the community there. The Government will set up the office in 2010 based in Auckland and it will become an important component of our overseas representation along with the Embassy in Fiji, the Mission in New York and the Tuvalu Mission in Brussels.

## **Education and Training**

49. Lastly I would like to reiterate the Government's priority on Education and Training. The Government continues to support these areas with over one-fifth of recurrent spending going to the Ministry of Education, Youth and Sports. In fact when the spending on in-service scholarships is included the amount of spending rises to almost one quarter of recurrent spending. And this does not include the scholarship programs funded by our development partners such as Australia, New Zealand and Republic of China. Our emphasis in this area is therefore undiminished.

## **Concluding Remarks**

50. Mr. Speaker, Hon Members of Parliament, our financial management over the past three years has provided many benefits for the nation. It has also shielded us from the worst global financial crisis in living memory. We are not resting on our achievements but building on them in this budget. Our reforms of the tax system, banking, financial management and public enterprises will build a strong foundation for economic development. Our work in the social sector provides for equitable opportunities for all. We believe this is the basis of a happy and prosperous Tuvalu.
51. As I said last year, we do not attempt to do everything. We are targeted in our approach to development. We focus on our priorities set out in Te Kakeega II. The initiatives I have outlined today are only part of the work that we continue to do. Our ongoing programs in education, health, law enforcement, agriculture and fisheries are also keys to steady progress and will continue to underpin Tuvalu's well being.
52. Te Kakeega II is our roadmap to a better future. But we must occasionally stop and take stock and so in 2010 we will look to track our progress by reviewing Te Kakeega. It will be five years since Te Kakeega came into effect – an opportune time to review our goals. But there will not be wholesale changes. Te Kakeega II has served us well. And it continues to provide us with 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 2010 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. But the hard work is still ahead. To turn the budget into real results for our people. For this I ask God to help us to make wise judgments, strengthen our hand, and guide our way in the year ahead.
55. I now commend the 2010 Budget to the Parliament.
56. Tuvalu mo te Atua.