

**2013 Budget Speech:
By the Hon Lotoala Metia
Minister of Finance and Economic Development
17 December 2012**

Salutations

1. Honorable Speaker to the House of Parliament, Hon Prime Minister and your good wife, Honorable Members of Parliament and your good wives, Representative of the EKT, Ambassador of the Republic of China to Tuvalu, Pule Fenua o Funafuti and Community Leaders, Ulu Aliku, Tupu, Pule o Kaupule on the Outer Islands, 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 to Parliament the Government's 2013 Estimates of Recurrent Revenue and Expenditure.
3. Honorable members, the 2013 National Budget consolidates and builds on the gains made in recent years in the wake of the Global Financial Crisis (GFC). Tuvalu has avoided the worst impact of the GFC through a mix of prudent spending policies, expanding our revenue base and generosity of our development partners.
4. The Government's fiscal position, while stronger, remains fragile. The uncertainty in the global economy that I spoke of last year remains. But we have set a solid foundation to rebuild our reserves and strengthen our economic base to cope with any possible future shocks to the world economy.
5. The 2013 National Budget is a budget of consolidation and reform. It is a budget that places the Government Budget on a sustainable footing and redirects more spending to our priorities. I believe it is a responsible budget that sets Tuvalu up for stronger economic growth and greater social development in line with the priorities set out in Te Kakeega II and its mid-term review last year.

The Setting

6. Mr Speaker and Honorable members let me spend some time to set the scene for the 2013 Budget. At the beginning of 2012 the Government faced a very difficult financial situation. There was a real prospect of the Government running out of cash reserves and needing to borrow to maintain essential Government services.
7. The 2012 Budget started the process of consolidation with conservative treatment of many areas. Spending was reined in, additional sources of revenue negotiated and stronger revenue performance has helped to deliver a much improved situation.
8. The International Monetary Fund (IMF) in its Article IV highlighted that we had taken some difficult decisions in regards to spending, tax compliance and scholarship spending. This had reduced spending and given development partners confidence to provide additional funds to support the budget. The Government has adopted a range of reforms outlined in the Policy Reform Matrix (PRM) to help strengthen confidence in the way the Government used its resources.
9. The IMF also highlighted some of the challenges facing the economy. These include falling numbers of Tuvalu seafarers and remittances, the strengthening Australian dollar is having a

depressing impact on Government revenues but also restraining inflation. Inflation has been low at between 1-2% for the past year with food and fuel prices remaining fairly stable unlike in recent years. The restraint in fiscal spending is also having an impact on growth and IMF have forecast only moderate growth of 1.2% in 2012 and 1.3% in 2013 as Tuvalu consolidates its fiscal position.

10. Tuvalu Trust Fund and CIF

11. Honorable Members, it is well known that the Tuvalu Trust Fund has suffered from the impacts of the GFC. The slow recovery in global financial markets means that although the TTF remains well managed its value is still below the value at which it will provide a distribution.
12. At 30 September 2012 the market value of the TTF was \$127.3m. The maintained value (capital contributions adjusted for inflation) was \$130.0m. This shows that the TTF has grown significantly in the past year to a point where it only needs to grow by 2.1% in real terms to provide a distribution in 2013. While this is a possibility the uncertainty in the global economy means that there is considerable doubt about whether this will occur. The TTF Board believes it is best to be conservative and assume that there will be no distribution in 2013 for the 2104 Budget.
13. At the same time the balance of our Consolidated Investment Fund (CIF) has risen from \$3.1m to \$4.5m now. So far in 2012 we have drawn down \$3.0m, but we have also received a contribution of \$4.0m from Australia and \$0.2m from New Zealand in line with our performance against fiscal benchmarks. The Government expects this to be bolstered further with the recent approval of the ADB Program grant of US\$2.35m, which is the result of the Government achieving a number of reforms in the Policy Reform Matrix.

Budget Support

14. Mr Speaker, last year it was clear that the Government needed help to deal with its fiscal problems arising from the aftermath of the GFC. Recognizing the Government's fiscal difficulties I undertook to approach development partners for help in coping with these impacts. My Ministry prepared a list of reforms, known as the Policy Reform Matrix, that the Government would work towards in order to secure budget support from development partners.
15. As part of this negotiation the Government has secured commitments from development partners of almost \$5.0m from AusAID, ADB and NZAID. In addition the World Bank have significant resources for budget support and have been heavily involved in the formation of the Policy Reform Matrix with a view to support the Government Budget.
16. Among the reforms the Government has embraced are the development of a detailed Public Financial Management Roadmap, the Quarterly Reporting and monitoring of the Government's financial position through fiscal ratios, approval of a procurement policy, and further public enterprise reforms including contracting out of the Vaiaku Lagi Hotel and the merger of the Tuvalu Philatelic Bureau, Travel Office and Post Office. These offices are still included in the 2013 Budget as the Government works out the details of the merger.
17. A related issue has been the improvement in Treasury reporting and Auditing in the past year. The Government is now current with its Audits after the presentation of the 2009, 2010 and 2011 Audits. These Audits have been made possible by the improvement in reporting in the Treasury Department and I would like to single out Treasury for the major effort they have made in the past year to strengthen their systems and reporting.

18. Of course, Mr Speaker, the Audits still highlight many shortcomings in our Public Financial Management. But it should also be noted that many outstanding issues have been resolved in the 2011 Audit. This does not hide the fact that there are still a wide range of problems. The PRM and the PFM Roadmap have set out a program of actions to address many of these issues.

The 2013 Budget

19. The 2013 Budget continues our efforts to address the economic and social obligations that compete for our limited financial resources. The TK II outlines our eight strategic priorities as our core concerns. Good governance, stability and growth, outer-island development, health and education are just some of our focuses. But we are also conscious of the need to develop productive sectors such as agriculture and fisheries that require our continued support.
20. In preparing the 2013 Budget and or projections in the Medium-Term Fiscal Framework (MTFF) we have to make a number of assumptions to project forward in the medium term. The key assumptions are:
- Economic growth is forecast at 1.3% in 2013 and beyond in line with the IMF forecasts;
 - Inflation is assumed to be 2.7% in in 2013 and through the medium-term;
 - The 2013 Budget assumes an exchange rate of one US dollar equal to 90 Australian cents and this has been applied to our US dollar revenue items in the Budget; and
 - There will be no distribution from the TTF until at least 2014 for the 2015 Budget.

Recent fiscal performance

21. Honorable members, the Government's recent fiscal performance as outlined in the Medium-Term Fiscal Framework has led to a substantial improvement in its overall position. The original projection for the 2011 budget was for a Core Budget Balance of \$6.7m but resulted in a deficit of \$5.8m. When the one-off grants from ROC and ADB are taken into account the Overall Budget Balance was a deficit of only \$2.5m. This would have been even better if not for the delay in the Government receiving \$2.0m in budget support from the European Union.
22. The 2012 Budget Core Budget Balance was originally estimated at a deficit of \$5.3m but is currently projected to come in at a deficit of \$3.5m. This is largely the result of improved fishing license receipts with spending being kept under control and coming in on budget. It is also in line with our TK II goal for the Core Budget Balance of 11% of Gross Domestic Product or 4% of the maintained value of the Tuvalu Trust Fund.
23. The situation though looks much brighter once you take into account one-off items, which are included in the Overall Budget Balance. In 2012 the Government has received \$8.4m in budget support from various development partners including \$4.0m from Australia, \$2.0m from European Union, \$2.2m expected from the Asian Development Bank and \$0.2m from NZAID. When these are included, the Government's Overall Budget Balance turns to a surplus of \$4.9m. With this surplus the Government anticipates that its cash reserves could increase to \$10.0m. This should place the Government in a good position to cope with future external shocks with this situation to be further improved if Government can secure more budget support.

2013 Budget Highlights

24. Honorable Members, the 2013 National Budget that I present today continues our tradition of fiscal prudence and investment for the future but also looks to consolidate important services and Government priorities.
25. Our recent fiscal performance combined with the ability to secure budget support places the Government in a reasonable position to start the 2013 Budget year. Cash reserves of around \$10.0m means that on current projections the remaining reserves will last through 2013. Without a TTF distribution the situation gets more difficult in 2014. The Government therefore needs to reduce expenditures or find other sources of revenues to fund its core services in 2014.
26. Honorable Members, the Appropriation Bill will seek Parliament's approval of \$31.6m in core expenditures. When statutory expenditure is included the Budget expenditure increase to \$32.6m. This is made up of \$29.4m in recurrent expenditure and \$3.2 million in Special Development Expenditures (or SDEs). This is an increase of 11.6% from budgeted core expenditure levels in 2012.
27. Budgeted recurrent spending will increase from \$27.2m in 2012 to \$29.4m in 2013, which represents an 8.2%. SDE spending has also increased from \$2.2m in 2012 to \$3.2m in 2013. This is where the main increase in expenditures has come from, as SDE spending tends to be volatile as expenditure can usually be deferred with no major impact.
28. Honorable Speaker the increase in spending in 2013 is sustainable and supported by an increase in estimates of recurrent revenues. Overall budgeted domestic revenue has increased from \$24.1m in 2012 to \$27.1m. The main increase in revenues comes from fishing licenses, .tv licensing revenues and tax revenues.
29. The TK II goal is to limit budget deficit "to no more than 11% GDP or as can be covered by 'sustainable' drawdowns from CIF". With Total Core Revenue of \$27.1m the recurrent deficit will be \$5.5m, which equates to 13.6% of Gross Domestic Product. A "sustainable" drawdown from the CIF is measured as 4% of the Tuvalu Trust Fund, which is \$5.4m and so the Core Budget Balance is largely in line with this goal. This deficit will be financed by drawing down on the reserves in our CIF.
30. Fishing License revenues are budgeted to increase from \$5.6m in 2012 to \$7.2m in 2013. This is in line with long-term averages of fishing licenses that have been increasing in recent years and recent changes in the structure of fishing licenses with the introduction of the Vessel Day Scheme (VDS) and the renegotiation of the US Treaty. This should reduce volatility in fishing licenses and also increase the overall levels of fishing license revenues.
31. .tv licenses also increase from \$3.6m in 2012 to \$4.05m in 2013 in line with .tv licensing agreements, which will deliver even more revenues in the years ahead.
32. Finally, tax revenues are scheduled to increase as the tax structure changes and the Government consolidates the tax reforms of recent years. Tax revenues are scheduled to increase from \$6.3m in 2012 to \$6.9m in 2013. This increase results from a combination of economic growth, increases in some taxes, increased compliance of existing taxes especially the TCT, while reducing some taxes on wages and salaries earners.
33. The Government will increase the Tuvalu Consumption Tax (TCT) rate to 7% in 2013 from the current level of 4% and is part of a commitment the Government has made under the Policy Reform Matrix (PRM). The increases in TCT reflect the Government's efforts to broaden the tax base and tax non-productive activity while reducing taxes on wages and salaries earners. The increase in TCT will be offset by a reduction in taxes on all workers earning more than \$4,000 as the tax-free threshold will be raised to \$6,000. This will result in

a tax cut of \$300 over a whole year for those earning more than \$6,000 while those earning less than \$6,000 will pay no wages and salaries tax. The Government will also look to provide additional tax relief in 2015 when the TCT is scheduled to increase to 10%.

Expenditure

34. Mr Speaker let me now take the opportunity to outline some of the main expenditure highlights of the 2013 Budget.

Education and Training

35. The Ministry of Education, Youth and Sports has been a major beneficiary of the 2013 Budget.

36. In 2012 the Government eliminated budget allocations for new scholarships in order to reduce the Government's scholarship spending. This may have been an over-reaction but the desperate situation we were in required desperate action. Even though development partners are still funding scholarships the total number fell significantly in 2012. In 2013 the Government will fund a limited number of scholarships both pre-service and in-service. The total number will be 30 with 21 pre-service new awards and 9 in-service new awards.

37. By limiting our new scholarships to 30 AusAID has committed to expand its scholarship program to help compensate. The Government is also being more proactive in taking advantage of the scholarship programs offered by development partners including New Zealand, Republic of China, India and others.

38. This has allowed the Government to redirect funds to other areas of educational priority such as Technical and Vocational Education (TVET) as expected under the Te Kakeega II. Dedicated TVET spending has more than tripled from \$42,306 to \$155,360 as a reflection of the high priority the Government places on developing this area of the education sector.

Ministry of Health

39. The Ministry of Health will also experience an increase in its Core Expenditure of 4.3% to \$4.5m. The Ministry has made many moves to curb its expenditure especially by restraining spending on the Tuvalu Medical Treatment Scheme (TMTS), which has experienced many overruns in recent years. The Ministry has worked diligently with the Tuvalu High Commission to look at ways to save money on the scheme. This has resulted in savings due to fewer referrals, quicker turnaround times, savings on accommodation and allowances and referring serious operations to India.

40. In other areas we have achieved our TK II goal of increasing allocations to non-salary primary health care by more than 50% from 2011 levels. The Government has achieved this ahead of schedule in 2013 rather than waiting until 2015. In fact the allocation has risen almost 60% from the 2011 levels as a reflection of the Government's increased efforts in preventative and primary health. This is a way of redirecting resources away from low return tertiary health care spending to high return of preventative health care.

Outer Islands

41. Mr Speaker, our island communities are the backbone of the nation. The Government continues to support these communities but also provides the autonomy to allow communities to control their own destiny. As we have mentioned the impacts of the GFC have been felt in Tuvalu including the outer-islands. The impacts have reached our island communities in that the Falekaupule Trust Fund has not provided a distribution for a number of years. In the

absence of distributions the Government continues to support island development through the provision of \$1.2m for projects for the island communities.

42. In addition the island communities have faced issues with food security with the problems being experienced by the Tuvalu Cooperative Society (TCS). While the Government will consider winding up TCS it is keenly aware of the food security issues on the outer-islands. As a result the 2013 Budget can only include \$1.0m to help address these issues and a committee will be established by Cabinet, chaired by MFED, to identify the best uses of this money to address the food security issues.

Good Governance

43. Mr Speaker, Good Governance is one of the eight priority areas of the TK II. One of the key actions in this area was to Establish an Ombudsman Office to implement the Leadership Code. The Leadership Code was passed by Parliament in 2006 but has not been enforced. In the 2013 Budget the Government has made an allocation for the establishment of the Ombudsman Office to start enforcing the Leadership Code. The full details of the office are still to be worked out but the budget allocated funds for the Chairman of the Ombudsman and allowances for two other members of the tribunal and support staff.

Taipei Mission

44. Mr Speaker, I must also say something about our special and long relationship with the Republic of China. Our relationship with ROC is one of our most valuable and rewarding and ROC is the only country to have diplomatic representation in Tuvalu. Just part of the assistance we received from ROC is the ongoing budget support, the friendship farm here on Funafuti, volunteer programs and an increasing scholarship program and among other training opportunities. The relationship is very close and we hope to strengthen these ties and develop more mutual beneficial exchanges by establishing a full Tuvalu Embassy in Taipei.
45. In the 2013 Budget the Government has made allocation for the establishment of the Taipei Mission. ROC will support the establishment of this mission with a US\$200,000 grant to help establish the office. We think it is time to take this relationship to a new level and we again thank ROC for all their support now and over the years, which has contributed greatly to the development of Tuvalu and its people.

Public Sector Reform and Community Service Obligations (CSOs)

46. Mr Speaker I have already mentioned some of the Government's efforts with public enterprise reform. We have been working to get all audits up to date and strengthen the work in the public enterprises. Also in line with the requirements of the Public Enterprise (Performance and Accountability) Act the 2013 Budget includes allowances for public enterprises. These CSOs allow the Public Enterprises to undertake non-profitable operations as directed by the Government. This year the budget includes allocations for the Tuvalu Electricity Corporation, National Bank of Tuvalu and Tuvalu Telecommunications Corporation largely to allow them to continue to maintain their outer-island operations without impacting on their profitability. The total amount of CSOs is \$825,873 spread over these three public enterprises.

Development Partners

47. Mr Speaker I would like to also take this opportunity to once again thank our development partners that are working with us in developing Tuvalu. I have already spoken of the close relationship with the Republic of China (Taiwan) and the assistance they provide to the Government. In the 2013 National Budget 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 2012 is US\$5.0m (\$4.5m), which allows us to fund a range of key projects in the Budget.

48. The 2012 Budget also anticipates a significant amount of Development Assistance from our other development partners. We have been expanding our diplomatic relations and this has opened up many more opportunities for development assistance.
49. We thank the Japanese Government in providing the recently completed AM Project and the upcoming upgrade for Motufoua as well as the range of assistance such as health clinics, provision of free fuel and environmental projects. Australia and New Zealand will continue to provide a wide range of support in areas such as technical advice, support to our scholarship programs, the Tuvalu Trust Fund, education and health sectors, among other things. The European Union is also providing extensive assistance in 2011 under its Water and Sanitation and Waste Management Projects under their EDF 10 assistance. There are many other donors such as Cuba, Republic of Korea, India and Russian Federation that are providing valuable assistance in critical areas for Tuvalu. We will also receive a wide range of assistance from regional and multilateral agencies such as the CROP agencies, UN agencies, ADB, the International Monetary Fund and the World Bank for their assistance. We thank all our development partners for this assistance.

Concluding Remarks

50. Mr. Speaker, Hon Members of Parliament, we faced the 2012 National Budget with many concerns. Some of the hard decisions we have made so far have helped us improve our situation, though there is still much to do.
51. The 2013 Budget continues this hard work especially by putting increased emphasis on our TK II priorities – primary health care, education and training including technical and vocation education, outer-island development, increased focus on good governance and strengthening our public financial management systems. We have also tried to maintain many other key programs in areas such as law enforcement, agriculture and fisheries to ensure that people are safe and have the opportunity to live productive lives and fulfill the goals we set out in the Te Kakeega II.
52. This is moving us towards achieving the Millennium Development Goals and achieving the Te Kakeega II goal of a “healthy, educated and prosperous Tuvalu”. There is much to do but I believe we are moving in the right direction and making some major strides in this quest.
53. Finally I would like to take this opportunity to express my appreciation to everyone involved in the preparation of the 2013 National Budget, particularly to members of the Development Coordinating Committee, Ministries, the Core Budget Team and the staff of the Planning and Budget Department. All these efforts have contributed to what I believe is another excellent achievement. I express my sincere gratitude to you all.
54. I now commend the 2013 Budget to the Parliament.
55. Tuvalu mo te Atua.