



Tuvalu National Budget 2018 Speech

By the Deputy Prime Minister and Minister of Finance and Economic Development

Hon. Maatia Toafa

06 December 2017

2018 TUVALU NATIONAL BUDGET SPEECH

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SALUTATIONS

1. Honourable Speaker to the House of Parliament and your good wife, Honourable Prime Minister and your good wife, Honourable Members of Parliament and your good spouses, President of the Ekalesia Kelisiano of Tuvalu, Ambassador of the Republic of China to Tuvalu, Secretary to Government, Permanent Secretaries, senior government Officials, General Managers of Public Corporations, representatives of the private sector and NGOs, Distinguished Guests and Fellow Tuvaluans.

INTRODUCTIONS

2. In accordance with Section 165 of the Tuvalu Constitution, I am honoured to present to Parliament the 2018 National Budget.
3. Mr. Speaker, last year I stood before you delivering this year's National Budget. In my introduction I stated that since independence, Tuvalu continued to make immense improvements in the areas of health, environment, infrastructure and access to electricity. Today I am pleased to say that our economy continues to perform better, providing employment opportunities. As a result we continue to make good progress in our effort to meet development targets in *Te Kakeega III*. The National Budget continues to be a key policy document that provide guidance on how we finance our aspirations and developments in our effort to improve our quality of life and prosperity.
4. Mr. Speaker, obviously the budget is not just about numbers - it's about our values, it's about our future, and how well we are laying the foundations and enabling groundworks with the aim to add value for everyone to succeed now and into the future. The objective of the 2018 National Budget is no different to previous budgets I presented. That is to offer more equal opportunities for all, while at the same time continuing to improve our Nation's long-run fiscal position and building resilience through investments in capital infrastructures. The budget is based on an opportunity agenda that no matter where you are in Tuvalu and who you are, you can succeed and contribute to our nation's development outcomes.
5. Mr. Speaker, as in previous National Budgets, the 2018 National Budget sets out concrete, practical proposals that address key challenges we face today, particularly in the areas of health, education, transportation and communication, environment, infrastructure, outer islands development and climate change. Almost all senior civil servants were consulted to obtain their views and recommendations on how best the Government can provide services and serve the people at the highest standard and within available financial resources. These recommendations were then presented to Cabinet for their final decisions.

ECONOMIC SITUATION

6. Mr. Speaker, before I go into the details of the 2018 Budget, let me review our current economic situation.

a. International Economic Situation

7. World economic and financial conditions have begun to pick up in the second half of this year. According to projections by the International Monetary Fund, the global upswing in economic activity has strengthened, with global growth projected to rise to 3.6 percent in 2017 and 3.7 percent in 2018.
8. Recognizing the global economic conditions and trends is important to Tuvalu in light of the fact that about 57 percent of total government revenues is sourced from overseas investments and grants and as such, any significant changes in the world economic conditions will affect our external inflows.

b. Domestic Economic Situation and Future Prospects

9. Tuvalu's economy was estimated to have grown by 3 percent in 2016, and is projected to rise to 3.2 percent in 2017 due mainly to increased government expenditure and increased in major infrastructure projects in the country. It is estimated that the economy will continue to grow between 2.0 and 2.5 percent in 2018. Inflation was moderate at 3.5 percent in 2016, and is expected to decline to 3.0 percent in 2017 and 2018.
10. The economy is susceptible to risks including the effects of climate change, volatility in fishing revenues and global financial conditions, which could affect distributions to the budget from the Tuvalu Trust Fund.

c. Performance of the 2017 Budget

11. Fiscal accounts reached a deficit of around 1.8 percent of GDP in 2016 given investments on coastal protection infrastructures on Funafuti and Nukufetau. The fiscal buffers have been replenished as the Tuvalu Trust Fund (TTF) stock rose amid buoyant global financial markets, and remains at a comfortable level. For 2017, the fiscal accounts are expected to remain in surplus if revenues meet their end of year targets.
12. Total expenditures for 2017 is forecasted to reach \$57.9 million at the end of the financial year, which is \$13.0 million or 18.3 percent below the approved level. Revised total revenues in 2017 is forecasted to reach \$66.5 million, which is \$2.1 million or 3.1 percent below approved level.

FISCAL POLICY

13. Mr Speaker, let me now address our priorities in detail, beginning with the most fundamental requirement for sustainable growth – macroeconomic stability. Our approach to macroeconomic stability is based on sound management of fiscal settings to avoid high factor prices and support economic growth.

a. Overall Target Expenditure

14. The Budget is the main instrument by which the Government executes its fiscal policy. In setting an overall ceiling for recurrent expenditure for 2018, the Government has estimated an underlying (sustainable) revenue of \$80.2 million. This is made up of domestic revenues (taxation and charges, TTF distributions, interest, dividends, dotTV and fish licences) of \$55.8 million, and external inflows (grants) of \$24.4 million. Because of the positive growth in the global financial markets, there will be an automatic distribution from the TTF for 2018 of \$8.0 million.
15. Mr. Speaker, based on the expected total revenue, the Government has established a target for recurrent expenditure of \$52.8 million for 2018, which is an increase of \$4.1 million (8.6%) from 2017. Special Development Expenditures (SDEs) has increased to \$8.9 million from the 2017 approved level of \$6.2 million. Infrastructure budget has also increased from \$8.9 million in 2017 to \$11.0 million in 2018. Therefore, recurrent expenditure including SDEs and special infrastructure amounts to \$72.7 million. In addition, we intend to contribute \$6.0 million to the TTF as part of our target to reach TTF maintained value of \$200 million by 2020. We also aim to invest \$2.0 million to the Tuvalu Survival Fund for climate resilience projects. This brings the total amount of expenditure for 2018 to \$80.7 million, which is an increase of \$9.8 million from the approved 2017 budget.

b. Financing the Budget Deficit

16. Consequently, a total budget deficit of about \$0.5 million is projected for 2018. Mr. Speaker, this budget deficit which will be financed by a drawdown from our national saving (i.e. the CIF), is well below the sustainable drawdown of \$6.7 million from the CIF. The CIF has a projected balance of \$26.4 million at the end of 2018. This Government has endeavoured to bring up the overall expenditure in-line with total revenue, to bring down the net deficit to a minimum level. This ensures that we continue to provide investments that are critical to achieving *Te Kakeega III* development outcomes such as investment to address the effects of climate change, health and education infrastructures, environment and waste management.

c. Revenues

17. Mr. Speaker, total domestic revenues in 2018 is expected to increase from 2017 approved level of \$51.5 million to \$55.8 million. This is mainly due to the increase in revenues from distributions from the Tuvalu Trust Fund of \$8.0 million in 2018 compared to \$6.7 million as budgeted in 2017. The other main increase is fishing licenses which is expected to increase to \$26.3 million in 2018 from \$24.9 million in 2017. In addition to domestic revenues, general budget support from development partners totalling to \$24.4 million is expected to be received in 2018. This is an increase of \$7.2 million from 2017 approved level of \$17.1 million.
18. Taxation revenue is expected to increase to \$8.8 million in 2018 (18%) higher than the 2017 Budget. This is the result of a marginal increase in receipts realised in 2017 due to the increase in employment opportunities in Funafuti and outer islands from development partners funded projects. In addition, the excise duty is likely to increase, primarily due to the new increased rates on sin goods. Import duties and TCT are also expected to increase in 2018 as materials and supplies are brought into the country for a number of large infrastructure projects including improvement to boat harbours in the outer islands.

19. Government charges are expected to increase by \$1.6 million to \$36.3 million in 2018, but slightly decrease over the medium term. Revenues from fishing licenses are expected to remain strong in 2018, projected around \$26.3 million in 2018, \$1.3 million higher than the 2017 Budget. This level of fishing license revenue is in line with recent historical averages (since the Vessel Day Scheme was introduced).
20. In addition, revenue source from dotTV marketing agreement will be maintained at a level provided in 2017 at \$7.1 million (US\$ 5.5 million) while marine charges in 2018 is expected to increase by \$258,000 from \$1.5 million in 2017 due to increase in materials and supplies for outer islands' infrastructure projects.
21. Investment revenue is expected to increase by \$1.4 million in 2018. The growth in 2018 is due to strong investment returns in the Tuvalu Trust Fund, which has seen the market value increase sufficiently to enable Government to receive a distribution of \$8.0 million from the Fund in 2018. Government agreed to re-invest \$6.0 million back into the Fund. The distribution from the Fund in 2018 marks the fifth consecutive year that the fund has exceeded its maintained value.
22. Mr. Speaker, Development Partners play a very important role in assisting Tuvalu meet national development priorities. The Government receives funding through both cash and non-cash mechanisms. Recurrent general budget support will continue from Republic of China (Taiwan) at the level of US\$6.5 million for 2018. This will result in revenues of \$8.3 million from this source if currency exchange rates are applied.
23. In addition, total non-recurrent grants from development partners is expected to be \$16.0 million in 2018, an increase of \$7.2 million from 2017, with \$1.0 million from New Zealand, \$2.9 million (Euro\$2.0 million) from European Union and \$9.6 million (US\$7.5 million) from the World Bank. The release of budget support is subject to successful implementation of reforms by the Government under the Policy Reform Matrix Phase IV. These funds are deposited directly to the consolidated fund and is included in the annual appropriation bill that is submitted to Parliament for approval.

d. Expenditures

24. Mr. Speaker, I would now like to move to the expenditure side of the Budget. Total expenditure for 2018 is estimated to be \$80.7 million which is an increase of 14% (\$9.8 million) from \$70.9 million in 2017. This includes \$8.9 million in Special Development Expenditure for one off projects, \$11.0 million for Infrastructure Projects, \$2.0 million contribution to the Tuvalu Survival Fund, \$6.0 million contribution to the TTF, \$52.8 million in recurrent expenditure, including \$772,181 in statutory expenditures.
25. Recurrent expenditures is expected to increase to \$52.8 million (8.6%) from 2017 level of \$48.7 million. This is due to the increase in allocation to salaries and allowances. Salaries and allowances are budgeted at \$23.1 million in 2018, which is an increase of \$2.3 million (11.4%) from \$20.8 million in 2017 with minimal movement projected over the forward estimates. A salary increase of \$30.00 on a fortnightly basis has been provided to civil servants in the 2018 Budget. The remaining expenditure movements reflect additional salary costs associated with staff progressing through increments in the salary scales and the employment of temporary staff.

SECTORAL ALLOCATIONS

26. Mr. Speaker, I now turn to the core or priority sectors of expenditures as detailed in the Budget Estimates.

a. Infrastructure and Maintenance

27. Construction of new classrooms for Nukufetau which were not completed in 2017 will continue to 2018. Nanumea classrooms which were also budgeted for in 2017 will commence in 2018. Government will provide funding of \$300,000 to complete classrooms for Nukufetau while \$1.0 million has been allocated to commence constructions for Nanumea classrooms. A provision of \$400,000 has been allocated for Phase 1 of the construction of the Tuvalu National Library and Archive building.

28. Investment in a housing project for the Pacific Islands Forum Leaders meeting which commence construction in 2017 will continue to 2018 with a total cost of \$2.2 million. This housing project will provide more housing for civil servants after the Leaders meeting. In addition, \$2.0 million has been allocated for the development of Queen Elizabeth II Park. The investment will beautify the Park to showcase Tuvalu to the world on climate resilience project. The Court House which commence construction in late 2017 will continue to 2018 with a total cost of \$1.7 million. Furthermore, a total amount of \$1.6 million has been allocated for new official residences for the Governor General, the Prime Minister and Cabinet Ministers.

29. Mr Speaker, the 2018 Budget has allocated \$550,000 under the Ministry of Health for a new medical clinic for Nanumaga. Currently, Nanumaga does not provide medical services from its medical clinic as a result of damages occurred during cyclone Pam. In addition, an amount of \$200,000 has been allocated for Phase 1 of the construction of Nanumea and Vaitupu mini-hospitals.

30. As part of sector budget support from the European Union, a total amount of \$531,794 has been allocated to the Solid Waste Agency of Tuvalu to continue phase 3 of the construction of the recycling station on Funafuti and the fencing of four outer islands dump sites.

b. Education

31. Mr Speaker, members of Parliament, I am pleased to announce that the amount allocated for government scholarships under the Scholarship Education Loan Fund (SELF) will increase from \$819,996 in 2017 to \$1.4 million in 2018. The additional expenditure reflects government's commitment to providing greater educational opportunities through an increase in the number of awards offered in 2018 compared to 2017.

32. Mr. Speaker, the Government will increase investment in our Early Childhood Care Education (ECCE). Government has allocated \$255,000 to support the increase in salaries for pre-school teachers in 2018. In addition, a total of \$195,000 will be provided in 2018 to strengthen School Based Management in Primary and Early Childhood schools. This allows for a more streamlined financial process for each Pre-School's procurement, utilities and other expenditures in accordance to their School Annual Improvement Plan (SAIP).

c. Health

33. Mr Speaker, funding for the Tuvalu Overseas Medical Treatment Scheme (TMTS) in 2018 will be maintained at current level at \$3.0 million. The TMTS aims to support Tuvaluans in need of special medical services that are not available in Tuvalu. In addition, \$1.1 million will be provided to settle 2017 TMTS outstanding bills in 2018.
34. Moreover, an additional funding of \$78,900 will be provided to meet accommodation and support costs for specialist doctors, Taiwan medical programme staff, locum basis paramedics and nurses. Additional funding of \$45,000 will be provided for examination fees to meet costs of carrier specimen/samples of patients to a referral laboratory for testing due to the unavailable of these tests in country. We also have allocated \$20,000 in 2018 for the Environmental Health Program and Reproductive Health Program to provide outreach program to the public.

d. Kaupule and Island Developments

35. Mr Speaker, Islands Projects grants for 2018 will be maintained at the current level of \$2.8 million which each island will continue to receive \$360,000 for development projects. A provision of \$60,000 is provided for technical assistance to design and prepare costings for infrastructure projects in the outer islands. A provision of \$80,000 is provided to carry out training of Falekaupule and Kaupule staff to upgrade the capability for better performance of local development.
36. The Government will also contribute \$100,000 for the Outer Islands Maritime Infrastructure Project which is funded by the Asian Development Bank and the World Bank with the aim to improve safety and handling of cargo in the outer islands. In addition, United Nation Capital Development Fund (UNCDF) will continue to provide financial support for the Local Climate Adaptive Living Facility (LoCAL) to integrate climate change adaption into local government planning and budgeting systems.

e. Social Welfare and Community Development

37. Mr Speaker, allocations for the Incapacity Support Scheme for the disabled will increase from \$84,000 in 2017 to \$95,000 in 2018. Senior Citizens Scheme will remain at 2017 level to provide a monthly support payment of \$70 to those most vulnerable in our community at a total cost of \$301,506.

f. Climate Change

38. Mr Speaker, the Government is committed to address the effects of climate change and \$2.0m will be provided to grow the value of the Tuvalu Survival Fund (TSF). In addition, \$3,000 has been allocated to manage the operations of the TSF. An amount of \$5,000 has been allocated to maintain the Property Registration System.

g. Foreign Affairs

39. Mr Speaker and Honourable Members of Parliament, total allocations in 2018 for diplomatic missions have increase from \$2.2 million to \$2.5 million to meet the increase in operational costs. Furthermore, \$34,000 has been allocated for new posting travel expenses for our diplomatic missions' representatives and \$100,000 will be provided to support Sipi Kana Festival, an annual event that will strengthen, encourage and revive our cultural practises.

h. Community Service Obligations (CSOs)

40. Mr Speaker, the Government will continue to provide support to Public Enterprises (PEs) to assist with services to the community. CSOs for 2018 will decrease by \$224,828 to \$677,213. CSOs are payable to the following PEs: Tuvalu Electricity Corporation will be maintained at a level provided in 2017 of \$179,421; Tuvalu Post Limited will receive \$100,000 which \$10,654 over the 2017 level; the National Bank of Tuvalu will receive \$85,000 which is \$8,862 greater than 2017 level; a total of \$30,000 will be payable to the Development Bank of Tuvalu which is \$8,712 less than 2017 level; and the Tuvalu Telecom Corporation will be supported with \$182,792 in 2018 which is \$155,632 lower than 2017 budget level. Total funding of \$100,000 is provided as Government grants to the Tuvalu Broadcasting Corporation which is \$80,000 less than in 2017.

i. Overseas Contributions

41. Mr Speaker, a total of \$988,088 has been allocated for annual membership fees for regional and international organizations including UN agencies in 2018. This is \$90,496 less than 2017 approve level of \$1.1 million. The decrease reflects movements in the membership fees for the relevant organizations.

DEVELOPMENT PARTNERS SUPPORT

42. Mr Speaker, and Honourable Members, we are truly grateful for the ongoing support from our development partners, whom have played important roles in helping Tuvalu achieved and realized its development objectives. I would like to acknowledge the support of Tuvalu's major development partners in our reform endeavours and welcome their continued support.
43. In 2018, general budget support from the Republic of China (Taiwan) will continue with US\$6.5 to receive in 2018. The Government is also expected to receive budget supports as part of the Policy Reform Matrix Phase IV. This include USD\$7.5 million from the World Bank, USD\$2.0 million from the Asian Development Bank and \$1.0 million from the Government of New Zealand. Although not reflected in the 2018 Budget, the Australian Government may also provide \$1.5 million if the Government meets the reforms. The European Union will provide sector budget support of EUR2.0 million to the waste management sector.

CONCLUDING REMARKS

44. Mr. Speaker, Honourable Members of Parliament, the discussions that we will have in Parliament in the next few days is not about budget cuts and increase in spending - its' about how we will shape our future in our effort to attain our *Te Kakeega III* vision of a more protected, secure and prosperous Tuvalu with educated and healthier people.
45. The future is ours to make in empowering our people for inclusive and sustainable growth. The challenge is now on effective implementation of this Budget. In this regard I urge all Government Ministries to ensure an effective and efficient implementation of the new policies supported in this Budget. I strongly encourage all Public Enterprises, Private Sector and Island Kaupule leaders to provide strong, honest and prudent leadership to support the Government endeavours to develop our small nation Tuvalu.

46. Finally I would like to take this opportunity to express my appreciation to everyone involved in the preparation of the 2018 National Budget, particularly to my fellow Cabinet colleagues, Development Coordinating Committee, Permanent Secretaries, senior civil servants and staff of the Ministry of Finance and Economic Development. All of these efforts have contributed to what I believe is another excellent achievement. I express my sincere gratitude to you all.
47. Mr Speaker, I commend the 2018 Budget to the Parliament.
48. Fakafetai lahi.
49. Tuvalu mo te Atua.

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