



Government of Tuvalu

2019 Tuvalu National Budget Speech

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Deputy Prime Minister and Minister of Finance and Economic Development

<English version>

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SALUTATIONS

1. Acting Governor General and your good spouse, 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 - Taiwan 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.

INTRODUCTION

2. In accordance with Section 165 of the Tuvalu Constitution, I am honoured to present to Parliament the National Budget for the fiscal year 2019.
3. This is the final budget for the current Government's four year tenure before the General Elections in 2019. The National Budget is designed in line with the requirements of the Tuvalu Constitution and the Public Finance Act.
4. Mr. Speaker and honourable members of Parliament, as in previous Budgets I have presented, the 2019 National Budget is a responsive and a fiscally sustainable budget that offers an economy, environment and a society that is productive, sustainable and inclusive. Importantly, Mr. Speaker, the Budget continues to be an important vehicle for the achievement of the goals and objectives of *Te Kakeega III*.

RECENT ECONOMIC PERFORMANCE

5. The 2019 National Budget builds on the successful economic progress we have achieved over the past years. I am proud to report that the International Monetary Fund (IMF) estimated real GDP growth for Tuvalu, for the period 2017 was 3.7 percent, and 4.3 percent for 2018. This notable performance was a result of Government's continued fiscal expansionary policy, with significant investments in infrastructure and housing projects as part of the preparation for the Forum Leaders meeting in 2019. The balance of payments was estimated to be in surplus for the period 2017 and 2018. This is partly due to increased direct budget support from developing partners through the Policy Reform Matrix mechanism and the strong performance of the fisheries sector. The level of external reserve was estimated to comfortably cover 9 months of imports at the end of 2017, well above the accepted target.
6. However, despite the strong macroeconomic performance Mr. Speaker, there were other economic indicators that continue to remind us not to be complacent. The IMF estimated lending growth to have slowed in 2017 and 2018 as banks reach their lending

capacities, partly due to non-performing loans. Inflation was recorded at 4.4 percent in 2017 and estimated at 4.3 percent in 2018 due to price increases in food and transportation. This puts the most vulnerable households at high risk as the latest Household Income and Expenditure Survey (HIES) results showed 70 percent of their income are spent on essential goods and services, leaving little room for adjustments in consumption choices. Disappointingly, the unemployment rate reached 37 percent in 2017, as some of the major donor funded infrastructure projects do not necessary translate to employment opportunities for the local population.

2019 ECONOMIC OUTLOOK

7. Looking ahead, the world economy is predicted to slow down in 2019 and 2020, amid geopolitical tensions amongst the major players. Trade wars between the US and China, the uncertainty surrounding Brexit, and the instability of Argentina's economy are a few examples of the key geopolitical risks ahead.
8. Mr. Speaker, let me now move on to the macroeconomic outlook for Tuvalu. This is broadly positive, despite a slightly lower IMF projected GDP growth rate at 4.1 percent for 2019. In the absence of a monetary policy, fiscal management becomes the most important tool in influencing macroeconomic stability for us. Therefore, capital expenditure and development partners' funded infrastructure projects continue to be the main drivers of growth as Tuvalu gears toward the hosting of the Pacific Islands Leaders Forum in August 2019. It means prudent fiscal management not only will be required for the sake of future generations, it will also be key in attaining sustainable growth in the immediate future. Higher fishing licences for 2019 holds the projected balance of payments in a surplus. Reserves are expected to remain sufficient at 10 months of imports at the end of 2019.
9. Despite our geographical isolation, we are not so economically separated from the rest of the world. In that sense, we must continue to build our resilience against major slowdowns in the world's economy and major corrections in investment markets. Natural disasters and slow on-set impacts of climate change, volatile fishing revenue and development partners' budget support remain the major threats to our fiscal sustainability. IMF's debt sustainability analysis highlights that Tuvalu remains at a high risk of debt distress. This situation will worsen by continued and significant fiscal deficits in the future. We must therefore lower our debt levels in order to better protect our economy from external shocks, and to protect our future generations from an unnecessary debt burden.

BUDGET SETTING

10. Moving on, the 2019 National Budget funding decisions have been based on the Medium-Term Fiscal Framework (MTFF). The MTFF provides a forecast of expected revenue and recurrent expenditure commitments over the period 2019-2021. In developing the projections, indexation is applied to the 2019 recurrent budget to reflect

the effect of inflation, economic growth and exchange rate fluctuations on current government expenditure. These projections provide an indication of the sustainability of Government's fiscal policy and the effect of new spending decisions on the Government's medium-term financial position.

11. Mr. Speaker, I am pleased to announce that the Tuvalu Trust Fund Board has confirmed an automatic contribution of \$3.8 million for 2019. We have been receiving distributions from the Tuvalu Trust Fund since September 2012. As of 30 September, 2018 the market value of the Tuvalu Trust Fund was \$180.2 million with a maintained value of \$176.4 million.
12. Revenues received from fishing licences is projected to be \$30 million in 2019, accounting for 55 percent of total domestic revenue. More than 2,100 vessel days have been allocated for Tuvalu with most of which have been sold. Historically, this revenue source has been very volatile, largely explained by the US exchange rate movements.
13. Furthermore, the Consolidated Investment Fund (CIF) is projected to have a balance of \$31.4 million by the end of 2019. This balance includes the \$3.8 million drawdown from the Tuvalu Trust Fund distribution and the \$965,148 to finance the budget deficit for 2019. The current balance of the CIF exceeds the minimum balance requirement of \$28.2 million. Under the current fiscal policy, a minimum balance of 16 percent of the TTF is required to be maintained in the CIF. This balance provides a buffer to finance budget expenditure in future years, should the need arise.
14. Mr Speaker, it is important to note that direct budget support from development partners under the Policy Reform Matrix (PRM) has been confirmed at \$19.4 million. It is important that the Government implement reforms initiatives to ensure fiscal stability but also to ensure that Tuvalu meets our development partners' disbursement criteria. Our partners in this initiative include Australia, New Zealand, European Union, Asian Development Bank and the World Bank. Our 2019 Budget fiscal position is greatly improved with the financial assistance of our partners under the PRM and also the general budget support of USD7.06 million from the Republic of China, Taiwan.

BUDGET HIGHLIGHTS

15. Mr Speaker and Honourable Members, allow me to highlight some of the key revenues and expenditures for 2019. The 2019 Budget provides clear focus on priorities and strives for efficiencies to ensure continued improvements in the quality of life of all people of Tuvalu. This Budget is about supporting policies to ensure that we will achieve a healthy, educated, peaceful and prosperous Tuvalu. It's about choosing investments that reflect where we aspire our country to be, and the kind of country we want our future generations to inherit.

Revenue

16. In 2019, domestic revenues are estimated to be \$55.7 million, \$18.8 million (25.3 percent) lower than the 2018 Revised Budget of \$74.6 million. In addition to domestic revenues, assistance of \$28.5 million will be received from our development partners for general budget support. Revenues are projected to decrease slightly over the forward estimates, driven mainly by fluctuations in exchange rates, which will affect fishing licenses and DotTV revenues and projections of future distributions from the Tuvalu Trust Fund.
17. Taxation revenue is expected to decrease by 2.1 percent to \$8.6 million in 2019, but it is expected to slightly increase over the forward estimates. This marginal decrease is a direct result of excluding potential revenues from Tuvalu Tuna Fong Haer (TTFH) and the Friendly Tuna joint ventures for which were budgeted for in 2018.
18. Government charges is expected to decrease by 24.8 percent to \$41.4 million in 2019 and slightly increase over the forward estimates. Revenues from investments are expected to decrease to \$5.7 million in 2019 due to the low investment returns from the Tuvalu Trust Fund because of the downturn in market conditions. Other investments revenues are expected to be received from dividend from the National Bank of Tuvalu and rents from Government housing.
19. In addition, revenues from the management of Tuvalu internet domain, DotTV will be maintained at a level provided in 2018 at \$7.1 million (USD5.5m). The Government with the support of New Zealand is currently providing support to strengthen the management of all commercial contracts, so that Tuvalu can receive maximum benefit and improve value for money on Government investments. Marine charges is expected to increase by 18 percent to \$2 million in 2019 and increase slightly over the years.

Expenditures

20. Mr Speaker, I would now like to move to the expenditure side of the Budget. The total expenditure for 2019 is estimated to be \$85.2 million which is a decrease of 7.7 percent from \$92.3 million in the 2018 Revised Budget. This includes \$9.5 million in Special Development expenditure for one off programs and activities, \$13.6 million for infrastructure projects, \$772,181 in statutory expenditure and \$58.3 million in recurrent expenditure.
21. The Government is committed to reviewing all expenditures and shift spending to high priority areas, to ensure it is meeting the key objectives outlined in the TKIII, the Government Roadmap and the Policy Reform Matrix, while at the same time maintaining fiscal constraint.
22. While details of all new spending items are contained in the 2019 National Budget, Mr Speaker, I would like to highlight the following important areas of domestic Government spending in 2019 which are directed at key economic reforms and priorities under the TKIII, the Government Roadmap and the PRM.

Infrastructures

23. The Government is currently working on a Multi-Year Infrastructure Budget in order to roll-over funds for infrastructure development. This will be done through a Special Fund under Section 20 of the Public Finance Act. This will prevent the need to appropriate money every year for major infrastructure projects and allow the design and construction to complete within a certain period of time of more than one year. All outer islands' previous allocations of \$200,000 per year under Special Development Expenditures will now be allocated under this arrangement as most of their spending are for infrastructures.
24. Most of the funding for infrastructures allocated in the 2019 Budget is to enable the Government to host the Pacific Islands Forum (PIF) Leaders Meeting in 2019. An amount of \$4.0 million has been allocated for the development of the Queen Elizabeth II Park and \$1.2 million for PIF housing. Furthermore, \$500,000 has been allocated for new civil servant housing on Funafuti.
25. The Government will provide \$1.5 million to support the construction of the Nauti Primary School classrooms with \$4.1 million provided by the Government of Australia. Furthermore, the Government will also provide \$1.5 million for the construction of the new Kaumaile Primary School on the island of Nanumea and also provide \$300,000 for the completion of the new Tutasi Primary School on the island of Nukufetau. An amount of \$600,000 has been also allocated for the design and documentation of the Tuvalu National Library and Archives new building.

Education

26. Mr Speaker, members of Parliament, we continue to focus on building Tuvalu human capital to prepare our people to innovate and compete. Our investment in human resource development is reflected in the cost of government scholarships maintain at a level of \$4.2 million. Scholarships for 2019 includes \$1.5 million for in-service scholarships, \$2.0 million for pre-service scholarships, \$540,000 for students fees at the Tuvalu Maritime Training Institute and \$196,825 for additional assistance to students on development partners scholarships. An amount of \$1.4 million has been allocated for students finance under the Student Education Loan Fund (SELF). All of these funds demonstrate our commitment to develop our human capital.
27. Government has allocated \$60,000 for the mid-term review of the Tuvalu National Curriculum Policy Framework and \$44,541 for our Early Child Care Education (ECCE) Teachers exchange scheme to learn and train on best teaching practices in New Zealand. In addition, \$41,096 has been allocated to review the Education Act to align with various developments and initiatives of the Department of Education.
28. Mr. Speaker, our grants and subsidies to schools will also relatively maintain at a level of \$853,899 and this include \$454,444 for Fetuvalu High School; \$154,416 for the Seventh Day Adventist primary school and \$15,000 for the Fusialofa. Furthermore, an amount of \$697,509 has been allocated to continue the support for ECCE teachers' salaries and \$84,609 for Technical and Vocation Education Training (TVET) teachers.

Health

29. The Government will increase the allocation for the Tuvalu Treatment Referral Scheme from \$3.5 million in 2018 to \$4.5 million in 2019. A further amount of \$1.0 million has been allocated to pay for the scheme's outstanding bills. This is a commitment by the Government to ensure that Tuvalu citizens get access to medical treatment that is not available in the country.
30. Provisions for essential medical supplies and drugs and consumable supplies will increase from \$667,724 in 2018 to \$721,290 in the 2019 Budget. Provisions for health specialists will be maintained at 2018 level of \$514,750 to cater for a paediatrician, a medical internal physician, a surgeon, an anaesthetist, an obstetrician and gynaecologist.

Kaupule and Island Developments

31. Mr. Speaker, grants for island developments will be maintained at \$200,000 per island for 2019. These grants will now be allocated in the special infrastructure budget instead of the special development expenditure. By doing this Mr Speaker these funds will roll-over to the next financial year allowing for large projects requiring more than 12 months completion time to continue with certainty of funding.
32. The Government grant to Kaupule under the vessel day scheme will increase from \$160,000 per island to \$200,000. Under this arrangement, each island will now receive 25 vessel days at \$8,000 per day. The Government will continue to provide Block Grant and Tied Grant each year to Kaupule with a total amount of \$691,027 and Falekaupule Grant of \$1.2 million. Therefore, Mr. Speaker and Honourable Members of Parliament, the Government will provide a total amount of \$631,321 per island for development and administration purposes. This is in addition to money received by each island from the Falekaupule Trust Fund distributions. This allows each island to drive their own development initiatives with increase in fiscal space.

Social Welfare and Development

33. Mr. Speaker, I am happy to announce the Government will increase provision for senior citizen scheme from \$301,506 in 2018 to \$440,400. This is an increase from \$70 per month to \$100 per month for each eligible person. Such will cater for the compounded inflation over the years since the establishment of the scheme.
34. The provisions for the Disability Support Scheme will increase from \$95,000 in 2018 to \$105,000 in 2019. Furthermore grants for non-government organizations (NGOs) will be maintained at \$25,000 each, in recognition of the contributions and benefits they have provided to the community.

Shipping Services

35. Mr. Speaker, improving sea transport services between the islands continue to be a development priority of this Government. In 2019, the Government will increase vessel fuel for the MV Manufofau from \$400,000 in 2018 to \$550,000 in 2019. The Government will also increase vessel for Nivaga III from \$500,000 in 2018 to \$700,000

in 2019. Vessel maintenance for the MV Nivaga III will increase from \$150,000 in 2018 to \$322,274 in 2019.

36. Furthermore, Mr. Speaker, the Government has allocated \$160,000 to initiate stevedoring services in all outer islands. This will improve timely discharge of cargoes in the outer islands. An increase funding of \$80,000 has also been allocated for Funafuti port stevedoring.

Foreign Services

37. Mr. Speaker and Honourable Members of Parliament, a total amount of \$225,993 has been allocated in the 2019 Budget to establish a Consulate Office in Auckland, New Zealand. This will increase Tuvalu's representation in New Zealand where there is a high number of Tuvaluans.
38. In addition, \$188,836 has been allocated in the 2019 Budget for the establishment of a new Diplomatic Mission in Dubai, in the United Arab Emirates (UAE). The new mission will represent Tuvalu's interest in this part of the Middle East region and develop corporation partnerships with the Government and the people of the UAE.

Community Service Obligations

39. The Government will continue to provide support to Public Enterprises (PEs) to assist with their community services obligations (CSOs). The Government support to the PEs will increase from \$677,213 in 2018 to \$768,580 in 2019. The CSO is payable to the following PEs: Tuvalu Electricity Corporation \$150,000; Tuvalu Post Limited will receive \$94,336, and \$108,209 will be provided to National Bank of Tuvalu. The Development Bank of Tuvalu will receive \$64,281 and the Tuvalu Telecommunication Corporation will be supported with \$171,754 in 2019.

DEVELOPMENT PARTNERS ASSISTANCE

40. Mr Speaker, and Honourable Members, we are truly grateful for the ongoing support from our development partners, whom in the past have played a very important role in helping Tuvalu achieve and realize 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.
41. In 2019, the recurrent general budget support will increase with additional assistance from the Republic of China (Taiwan) at the level of US\$7.06 million for 2019 compared with US\$6.5 million from previous years. In addition, non-recurrent grants from development partners are expected to be \$19.4 million in 2019, an increase of \$3.3 million from 2018. This comprise of \$1.5 million from Australia, NZD1.0 million from New Zealand, \$2.0 million from the European Union, US\$4.0 million from Asian Development Bank and US\$7.5 million from the World Bank. These direct financial assistance will be used as supplementation for Government budget priorities as part of the National Budget process. The funding is deposited to the consolidate fund and is included in the annual Appropriation Bill that is submitted to Parliament for approval.

42. Mr. Speaker, I want to highlight some of the key infrastructures for the next few years funded by our development partners. The Tuvalu Coastal Adaptation Project (TCAP) of US\$36 million with funding from the Green Climate Fund, EUR6.0 million provided by the European Union under EDF11 to improve waste management. Funding from the World Bank for the period 2018 to 2020 include the US\$31.7 million from the World Bank to develop the telecommunication and ICT sector, US\$20.0 million for the Tuvalu Maritime Project (MICRO), US\$7.0 million for the Pacific Regional Oceanscape Project. Funding from the Asian Development Bank for the period 2018 to 2020 include US\$14.0 million for the Outer Islands Maritime Infrastructure Project and funding of US\$7.8 for a renewable energy project.

CONCLUDING REMARKS

43. Mr Speaker, Honourable Members of Parliament, the 2019 Budget that we will be discussing for the next few days will have an impact on Tuvaluans in many ways that are potentially profound. I do believe that we are all connected and there are many things that we can do well together rather than individuals and the Government provides' that opportunity. These include areas such as education where we build classrooms and improved opportunities for scholarships under such scheme as the SELF. In health we promote preventing health care rather than curative through awareness workshops and training. In the environment we promote sustainable use of resources through environment management plan and marine protected area. In climate change we strive for building our resilience through coastal protection and land reclamation.
44. The 2019 Budget continues the Government's focus on a responsible and fiscally sustainable budget. Substantial investment has been targeted towards the health and education sectors and to benefit those within our community who are most vulnerable. The Budget increases investment in outer islands development in order to ensure that the nation's wealth is shared amongst all citizens. Importantly, there is strong commitment to achieve our vision in the *Te Kakeega III* that foresees a more protected, secure and prosperous Tuvalu with education and healthier people.
45. The future is ours to make in empowering our people for inclusive and sustainable growth. The challenge is now on the effective implementation of this Budget. In this regard I urge all Government Ministries to ensure they have in place an effective and efficient implementation plan to operationalise the new policies supported in this Budget. I strongly encourage all Public Enterprises 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 2019 National Budget, particularly to my fellow Cabinet colleagues, Development Coordinating Committee, Ministries, Permanent Secretaries and the staff of the Planning, Budget and Aid Coordination Department. All these efforts have contributed to what I believe is another excellent achievement. I

express my sincere gratitude to you all as this will be my final budget before the end of this Government tenure of four years.

47. Mr Speaker, I commend the 2019 Budget to the Parliament.

48. Fakafetai lahi,

49. Tuvalu mo te Atua.