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Tonga: Recent Economic Developments

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TONGA

Recent Economic Developments

Prepared by Yutaka Nishigaki (APD), Alberto Jiménez de Lucio (STA),
and Michi Tanaka (OAP)

Approved by the Asia and Pacific Department

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I. OVERVIEW

1. **Tonga is an archipelago, located on the dateline 1,500 kilometers south of the equator, comprising 36 inhabited islands scattered over 1,000 kilometers of ocean.** Its population of about 100,000 enjoys a middle-income standard of living (with a per capita GDP in 1999/00 of about US\$1,500). Tonga is a constitutional monarchy in which substantial powers are assigned to the King and the nobility; the government is large with its spending amounting to about 30 percent of GDP. The economy is open and heavily dependent on grants and remittances; it shares a number of characteristics with other island economies such as remoteness, openness, susceptibility to natural disasters, limited diversification, small domestic market, narrow resource base, and scarcity of skilled labor.

2. **Tonga is an agriculture-based economy.** A vast majority of families own plots of land in which they grow a large portion of their food requirements. In addition, some crops are grown for export. In the early 1990s, Tonga's real GDP growth enjoyed a temporary boost from its success in exporting squash to Japan. However, ineffective production arrangements, marketing problems, shortage of crop financing, and growing foreign competition have contributed to a drop in squash production since its peak in 1993/94. Accordingly, the economy reverted back to its trend growth of about 1–2 percent during 1994/95–1997/98.¹ Moreover, prices in the Japanese squash market collapsed in 1999, bankrupting some growers and leading others to shift to other activities.

3. **Real GDP growth in 1998/99 and 1999/00 is estimated at 3½ percent and 5½ percent, respectively.** In 1998/99, the increased production of processed food and building materials more than compensated for the decline in agricultural output, which was severely affected by Cyclone Cora in December 1998. Growth in 1999/00 was led by a large increase in the trade and services sector related to the millennium celebration events, together with the income effect from increased workers' remittances. Growth was also supported by a rebound in agricultural production. Inflation rose to about 4 percent in 1998/99 (period average) attributed mainly to drought and higher world prices. Upward adjustment in tobacco prices was the main cause behind the further increase in inflation to 5½ percent in 1999/00.

4. **Macroeconomic policies were geared toward maintaining stability in 1998/99–1999/00.** Fiscal deficits were kept low with little recourse to domestic bank financing as the implicit fiscal rule of maintaining a zero recurrent balance was broadly adhered to. While private sector credit growth was contained, net domestic assets rose by 30 percent in 1999/00. The external position worsened substantially in 1999/00, reflecting rapid growth in imports and a few bulky one-off transactions. In addition, the capital account worsened as official loans declined further. Accordingly, foreign reserves declined from 3½ months of imports at end-1998/99 to below 2½ months of imports at end-1999/00.

¹The fiscal year begins in July.

II. OUTPUT, PRICES, AND EMPLOYMENT

A. Production by Sectors

5. **The Tongan economy has a large services sector that accounts for more than half of total output.** Government services followed by commerce, restaurants, and hotels are the main components of the sector. The primary sector, accounting for about a quarter of total output, is vulnerable to weather conditions and thus has been the main source of output fluctuations (Tables 1 and 2).

Agriculture

6. **Key agricultural products for domestic consumption are root crops such as yam, cassava, taro, and sweet potato, while squash is the main agricultural product for export.** Indices of agricultural production show that 1996/97–1997/98 was a particularly bad period for exports as production of root crops, which are predominantly affected by the supply side such as weather conditions, outperformed production of export crops, which depend more on demand conditions (Figure 1). Fluctuation of agricultural production in recent years for domestic consumption was somewhat dampened in value terms by the opposite movement in the unit values of these products (Table 3). Agricultural products for both domestic consumption and export rebounded in 1999/00 after having declined significantly in 1998/99 in volume terms.

Fisheries

7. **The fishery industry grew steadily throughout the 1990s to become an important source of foreign exchange earnings second only to squash.** Receipts of fish exports grew from US\$1 million in the early 1990s to about US\$4 million more recently. The fishery industry is vulnerable to weather conditions, and its exports are constrained by limited transportation; a small amount of fish with a high unit value is exported using commercial airlines. Main exports are tuna, snapper, and grouper. The tuna catch has grown rapidly in the last two years, and now accounts for about one-half of total fish exports in value terms. About 30 percent of the fresh tuna catch is exported to Japan, 20 percent to Korea, and the remainder is exported to the United States, particularly Hawaii.

8. **The government is sponsoring the growth of the fishery industry.** In 1997, the Food and Agriculture Organization (FAO) and the Australian governmental aid organization (AusAID) conducted a sector review and made recommendations in five areas: (i) shore resource management; (ii) tuna long-line fishing; (iii) small-scale fishing; (iv) pearl industry development; and (v) aquaculture development. These recommendations helped the Ministry of Fishery refocus its policy priorities. In 1998, the government started to redraft the Fishery Act, with assistance from FAO, with the goal of complying with regional initiatives to manage fisheries, especially relating to tuna. The draft legislation is expected to be presented to parliament in 2001. Fishing licenses were issued to foreign companies starting in 1999 and the sector is expected to benefit from foreign direct investment.

Tonga: Developments in Agricultural Products for Export

With fertile land, Tonga has an advantage in producing agricultural products. However, remoteness from large foreign markets hampers development of cash crops. Tonga's agricultural exports can be classified into two categories: (i) the traditional root crops; and (ii) cash crops developed mainly for export.

Traditional root crops include taro, yam, and cassava. These crops are consumed by Tongans living abroad who purchase them in small quantities for personal consumption. Accordingly, exports of these products have been rather stable and limited, accounting for only about 5 percent of total agricultural exports.

The main cash crop has changed over time, initially from banana to coconut, and vanilla; since the late 1980s, squash has been the main crop. These changes over time were brought about by greater competition worldwide and a collapse of world prices of the respective products. Squash production was introduced to Tonga by a New Zealand firm in 1988 and soon became the most important product accounting for about 45 percent of total agricultural exports. Profitability of squash, however, has declined due to a drop in its price. The Tongan government once introduced quotas in an attempt to achieve higher export prices, but failed to sustain prices while discouraging output.

Tonga is trying to diversify its agricultural products for export. The most promising product is kava, which is currently exported to Fiji, New Zealand, and the United States. In addition, demand from European pharmaceutical manufacturers has increased steadily since 1996. However, there are constraints to its expansion, such as obtaining access to areas with suitable soil and having sufficient quantity of planting materials.

9. **Tonga is reported to have abundant fish resources owing to its location,** and to not having exploited those resources to the same extent as some of its neighboring countries. The Tongan authorities are mindful of conserving its fish resources and are actively involved in regional multilateral arrangements for managing tuna stocks.

10. **In addition to fish, there are other sea-related export products.** In 1998, Sea Star, the largest domestic fishing operation jointly owned by the Tongan government, and Japanese and Tongan private companies, started mozuku cultivation. Its main market is Japan, and exports are expected to grow rapidly. Currently the company produces 400 tons of mozuku, and it plans to raise the production level to 600 tons in 2000/01 and to 2,000 tons in five years.

Manufacturing and construction

11. **Starting in the late 1970s, the government made significant efforts to develop manufacturing.** Enactment in 1978 of the Industrial Development Incentives (IDI) Act was the first step. The establishment in 1980 of the Small Industries Center to assist with buildings, utilities, and infrastructure facilities for industry was a second step. Earlier, the Tonga Development Bank (TDB) had been set up to assist export-oriented businesses by providing loans at below-market interest rates. Despite these efforts, the share of manufacturing in GDP has not grown significantly over the past 20 years. The boost to manufacturing provided by the IDI Act proved temporary because a number of companies disappeared after their tax holidays expired.

12. **Manufacturing has grown steadily only in the last three years, averaging about 10 percent of annual growth.** In 1998/99, production of processed food and building materials for construction increased, which offset a fall in agricultural production. However, the domestic market for locally manufactured and assembled goods remains very small. With respect to foreign markets, the international competitiveness of manufactured products suffers from high operating costs, especially in utilities and transportation, delays in obtaining approvals, high duty rates, and shortages of skilled labor. Moreover, labor costs are reported to be high in comparison to Southeast Asian economies.

13. **Construction activity is influenced heavily by externally financed development projects.** In 1998 and 1999, some major projects were completed, including the National Council of Churches Center, the Nafanua market in 'Eua, estimated at US\$0.9 million and US\$0.5 million, respectively, the Wesleyan Church administration center, school buildings for the Niua's funded by the New Zealand government, and a business center for Tupou High School. Furthermore, infrastructure projects in Vava'u, including new customs and market buildings, improvement of the urban water drainage and the wharf, and the reconstruction of the roads in Neiafu, were concluded. In 2000, a new project funded by Japan to improve the water system in Tonga was commenced and is expected to continue for two years.

14. **The tertiary sector recorded an average growth rate of 4 percent during 1997/98–1999/00.** Accounting for more than half of total value-added in Tonga, this sector contributed significantly to recent real GDP growth. The biggest component is government services, which expanded by 9 percent and 1½ percent in 1998/99 and 1999/00, respectively. Commerce, restaurants, and hotels, which are related to tourism, are the most important private sector services. Transportation and communications, and finance and real estate are also large components.

15. **Tourism jumped in 1999/00 following weak growth in the previous year** (Table 6). This growth was related, but not limited, to the millennium celebration events in the fourth quarter of 1999. The increase in the number of tourist arrivals, which started in 1999/00 is continuing in 2000/01. Growth of the tourism sector is constrained by limited accommodation in terms of both quantity and quality, although some renovations are taking place and a few hotels are being built. The turmoil in Fiji in May 2000 has not adversely

affected Tonga's tourism, counter to initial expectation as Fiji is regarded often as the main gateway to Tonga. The Fiji turmoil could have a permanent and positive impact on Tonga's tourism if more short-haul tourists from Australia or New Zealand, which currently account for 50 percent of Tonga's tourists, were to regard Tonga as a safe alternative to Fiji. On the other hand, the number of tourists from the United States, Europe, and Asia could drop as they are not very familiar with regional developments and, therefore, tend to group Tonga together with Fiji as a country in an unstable region.

16. **The government considers tourism as one of the three most promising industries in the latest development plan, the other two being fishery and agriculture.** AusAID has been assisting the Tongan government for the last two years to develop the tourism industry through a three-year project. The aim of the project is to improve the quality of the industry as well as to advertise and promote Tonga as a potential destination, including through creating a Web site.

B. Prices and Wages

Prices

17. **Inflation rose to about 4 percent in 1998/99, attributed initially to drought, and followed by higher world prices.** To a lesser extent, the lagged effect of the close to 20 percent nominal exchange rate depreciation vis-à-vis the U. S. dollar in 1997/98 also contributed to the price increase. Upward adjustment in tobacco prices by 20 percent was the main cause behind the further increase in inflation to 5½ percent in 1999/00 (Table 7).

18. **The composition of the CPI basket reflects the 1992/93 Household Income and Expenditure Survey.** Key items in the basket are food (43 percent), transportation (15 percent), and household goods (14 percent). The CPI basket is also divided into domestic and imported components. The imported component has a larger weight (54.2 percent) than the domestic component. Since the share of imported consumption goods in total consumption is high, Tonga's prices track relatively closely its trading partner's price changes.

Labor market and wages

19. **A steady emigration has kept the population growth to less than one percent per year.** As emigrants include skilled labor, current demographic developments have led to local shortages of certain types of workers. Most Tongans emigrate to the United States, Australia, and New Zealand. With the recent tightening of rules regarding immigrants in these countries, the number of new emigrants is expected to decline in the future. Information on recent developments in the labor market is not available since the last labor force survey took place in 1996 and the next one is planned for 2001 (Table 8).

C. Private Sector Development Policy

20. **Businesses require a license to operate that is issued based on the applicant's nationality, a proposed business plan, and financial references.** The business license is a

de facto regulatory mechanism control applied on a discretionary basis that could discourage foreign involvement. Investment income is subject to various taxes: corporate and individual income tax, import tax (including ports and services tax), excise duty, and sales tax. Income tax is applied to salaries and wages, and dividends and interest income are subject to withholding taxes.

21. **A set of investment incentives is provided, largely tax holidays and duty exemptions and concessions.** Investment privileges, under the IDI Act, are secured by obtaining a development license.² The Standing Committee, which advises on the issuance of such licenses, normally specifies the incentives to be offered. It has wide discretionary powers in issuing licenses and approving incentives. For foreign investment, the committee is required to determine the desirability of the investment based on several factors including export potential, import substitution, level of local equity participation, labor/capital ratio, and technology transfer.

22. **The current licensing system fails to provide a clear framework on which investors can make decisions.** Moreover, the tax system imposes a high burden on investment income in comparison with its regional competitors. This is well illustrated by the level of import duties imposed on capital items; the 42½ percent corporate tax rate and the 15 percent withholding tax on distributed dividends raise the effective tax rate applied to distributed income to above 50 percent.

23. **The authorities plan to streamline licensing procedures,** including through: (i) removing the scope for discretion in the process by the licensing officer; (ii) developing and using a negative list of sectors or business activities for which business licenses cannot be issued; (iii) rationalizing the extensive list of conditions associated with the granting of licenses to particular business types; (iv) simplifying the application process, including the removal of the unnecessary information requirements; and (v) reviewing the licensing process to consolidate and simplify.

24. **Current tax reform proposals include:** (i) a progressive income tax structure with a redefined threshold income, abolition of numerous deductions, and removal of withholding tax on dividends and interest; (ii) a single corporate income tax rate for both foreign and domestic companies at or close to the maximum personal rate; (iii) a simplified lower tariff structure centered around a uniform low rate with a higher rate for only a narrow class of luxury items; and (iv) a broadened uniform sales tax or equivalent to include services as a transition to a VAT-type structure, and abolition of the existing fuel sales tax.

²Primary industries receive preferential tax treatment outside the IDI Act.

III. PUBLIC FINANCE

A. Overview

25. **The public sector plays a dominant role in Tonga.** Total central government revenue and grants have averaged about 30 percent of GDP over the past five years, while total expenditure has been slightly higher. In addition, the public enterprise sector is large and diverse, comprising of enterprises engaged in a wide range of activities (e.g., utilities, tourism, transportation, banking, and fishing). As a result, the government is also a major employer in the economy.

B. Recent Developments

26. **Fiscal policy in recent years has been generally prudent.** The overall balance, on a *Government Finance Statistics* basis, swung from a deficit of 4.8 percent of GDP in 1996/97 into a surplus of 0.8 percent of GDP in 1999/00. The sharp improvement is largely a result of lower capital expenditure, and to a lesser extent, increased tax revenues due to higher imports (Table 9). The large variation in deficits reflect the availability of foreign financing that is related to capital expenditure rather than an intentional fiscal stance of the government.³ Moreover, the unusually high level of capital expenditure and unidentified financing in 1996/97 are most likely the result of a misclassification of grants-in-kind.

27. **Tax revenues rose by T\$10 million over the past four years, reaching T\$52.9 million in 1999/00** (Table 10). Most of the increase occurred in the last two fiscal years, where higher collection of trade taxes accounted for over 70 percent of the increase. Nontax revenues declined by T\$2.2 million over the same period, mostly due to a drop in the collection of administrative fees and charges, which was partially offset by higher entrepreneurial and property income. Grants-in-cash has been declining over the past four years, partly due to donors' increasing preference for paying suppliers of goods and services directly.

28. **Current expenditure rose by T\$10.6 million over the past four years, reaching T\$66.2 million in 1999/00** (Table 11). The main cause of the increase was larger outlays for wages and salaries, including a 5 percent cost of living adjustment granted to offset the impact on take-home pay of the new retirement scheme introduced on July 1, 1999 and the cost of the employer contribution to the scheme (see below). Capital expenditure, excluding grants-in-kind, declined over the period to T\$5.6 million (less than 2.5 percent of GDP) in 1999/00. This decline is the result of donors' increasing preference for paying suppliers directly, as noted above, and the lesser use of external loans to finance investment.

³Tonga follows an implicit fiscal rule, which dates back many years, that requires recurrent expenditure to equal recurrent revenue. In practice, this rule ensured that current expenditure was generally limited to what was collected from domestic revenue sources.

29. **Public debt outstanding at end-1999/00 is estimated to be 47 percent of GDP, with domestic debt accounting for 6 percent and external debt (mostly concessional) for 41 percent of GDP (Table 14).** At present, the entire domestic debt is in the form of bonds held mainly by banks and, to a lesser extent, by the nonfinancial public and private sector. Additionally, the government has a large unfunded legal liability on account of obligations under the new retirement scheme for civil servants. This liability is estimated at T\$30 million.

C. Budgetary Process and Structure of the Budget

Budgetary process

30. **The Treasury Department in the Ministry of Finance (MOF) oversees the formulation of the annual central government budget.** The overarching guideline followed in the formulation of the budget is to maintain recurrent expenditures equal to recurrent revenues, with development expenditures determined mainly by available foreign grants and loans. A detailed budget proposal, endorsed by the Privy Council, is sent to the Legislative Assembly in May of each year and is usually approved prior to July 1, the beginning of the fiscal year. In addition, the Minister of Finance prepares a budget statement, which he/she presents to the Legislative Assembly. The statement not only contains the aggregate revenue, expenditure, and funding figures for the coming fiscal year, but also provides the context for the formulation of the budget, as it contains sections on the overall national objectives and the role of government, the medium-term economic objectives and strategy, and the specific strategies and policies embodied in the budget.

31. **The approved budget is published in *Program Budget Estimates of the Kingdom of Tonga*, together with provisional figures for the past two years.** This publication provides detailed information by vote on revenues, as well as on expenditures and their funding. Additional expenditures not included in the budget require supplementary appropriations. Until the 1997/98 fiscal year the central government's budget had two components, a recurrent budget and a development budget. Beginning in fiscal year 1998/99 program budgeting was introduced, unifying the recurrent and development budgets; unfortunately, comparison of figures between the two budgeting modalities is difficult. At the end of the fiscal year the Accountant-General prepares the *Government of the Kingdom of Tonga Public Accounts*, which are reviewed by the Auditor-General and once formally approved are published in the Government Gazette.

Budget structure

32. **The most important source of revenues in Tonga is foreign trade taxation.** It accounted for over 64 percent of tax revenues in 1999/00 or about 50 percent of total revenues, split almost evenly between customs duties and the ports and services tax. Income and sales taxes account for most of the remainder tax revenues. The tax system is characterized by large exemptions that significantly lower the amount of taxes actually collected. The main sources of nontax revenue are the administrative fees and charges the

government collects on the goods and services it provides. Entrepreneurial and property income accounts for most of the remainder of the nontax revenues. Total revenues as a share of GDP has remained fairly stable over the past four years at around 26–30 percent.

33. **The government is in the process of reviewing the existing tax and tariff systems.** They are aware of the problems associated with the heavy reliance on trade taxation and the narrow tax base, as well as the large number of exemptions. Hence, the authorities plan to reform them, with the intent of reducing the reliance on trade taxation and eliminating the bulk of exemptions. Major changes being contemplated include gradually reducing the ports and services tax, simplifying the tariff structure, expanding the sales tax, and abolishing discretionary exemptions.

34. **Wages and salaries accounted for 53 percent of current expenditures and represented 14.4 percent of GDP in 1999/00.** The large share of wages and salaries crowds out expenditures on purchases of essential goods and services, and limits the domestic resources available for investment. From a functional perspective, current expenditures on education, health, and agriculture rose slightly over the past four years, while the amount spent on general public services declined.

35. **This level of capital expenditure is inadequate to provide the basic infrastructure for the Tongan economy.** This is particularly relevant if the Tongan economy is to expand over the medium term at rates that will lead to higher standards of living for the population. In terms of the sources of funding, grants-in-cash provided most of the investment resources, complemented by transfers from the Tonga Trust Fund (TTF), while external loans became increasingly insignificant.

Financing

36. **Financing of the budget comprises three distinct components: domestic financing, foreign financing, and drawings from the TTF.** Domestic financing has two elements, i.e., bank loans and bond issues. Recourse to domestic financing has been limited during the past four years, as the total domestic debt has remained in the T\$13–15 million range, mostly in the form of bonds.⁴ External financing has been modest over the period, with total external debt remaining broadly within US\$60–67 million.

37. **The TTF is an official account, held mainly offshore, separate from the budget and the international reserves** (Table 15). It became operational in 1989, when it received proceeds from the issuance of Tonga Protected Persons passports to foreigners (mainly Chinese). It is managed by a Board of Trustees chaired by the Prime Minister. Over the years it has been used to finance different budget expenditures, though currently it is only used to

⁴Most of these bonds are held by banks.

finance specific capital investments. Financial statements for the Fund are published in the Gazette with long lags, the latest one being for fiscal year 1997/98.

Pension scheme

38. **A new retirement scheme for civil servants was introduced at the beginning of fiscal year 1999/00.** All civil servants holding a pensionable office aged 50 years or more and who have at least 15 years service as of June 30, 1999 can elect to remain in the old pay-as-you-go scheme or transfer to the new one; everyone else is required to transfer to the new scheme. All members must contribute 5 percent of their annual salary to the scheme, although they have the option to contribute additional amounts. The employer must contribute to the scheme 5 percent of the employee's salary from July 1, 1999 to June 30, 2004, 7.5 percent from July 1, 2004 to June 30, 2009, and 10 percent thereafter. Member accounts in the scheme earn interest at a rate set by the scheme's Board based on the actual return on the scheme's investments. All benefits are paid in a lump sum.

D. Public Enterprises

39. **Tonga's public enterprise sector is large and diverse** (Table 16). It comprises statutory bodies, nonfinancial enterprises, financial enterprises, plus minority holdings in other enterprises. Among the activities these enterprises engage in are utilities, tourism, transportation, banking, and fishing. Only four of these enterprises pay dividends to the government. However, they are all subject to corporate taxation like any private company. There are no performance guidelines that apply to public enterprises. There is no timetable for the privatization/corporatization of public enterprises, though the government does intend to sell off some of them in the future.

40. **Available information on public enterprises is limited.** The MOF established a Government Investment Unit in July 1999 to monitor the performance of public enterprises. A recent Privy Council decision mandates the MOF to review the financial situation of public enterprises with a view to obtaining dividends. As a result of this decision the MOF expects improved access to the financial statements of public enterprises.

E. Privatization

41. **Progress in reform of nonfinancial public enterprises has been slow and Tonga is far behind other Pacific island countries** (see Appendix). Two conclusions are evident from the matrix:

- **Tonga lags behind other countries in the region as it has made no meaningful start on corporatization and privatization of state-owned enterprises.** Most of the other

countries in the region have already started or have completed corporatizing/privatizing their state-owned enterprises.⁵

- **Tonga's tax system relies more heavily on taxation of trade than other Pacific island countries.** The authorities are planning to shift to domestic taxes by expanding the sales tax to capture services by July 2001.

IV. Monetary Sector

A. Institutional Structure

42. **The banking system in Tonga is small and only about 25 years old.** It is currently composed of five institutions: a central bank, three commercial banks, and one development bank. Until 1993 only two banks operated in Tonga: the Bank of Tonga (BOT), a locally incorporated commercial bank established in 1974, and which is 40 percent owned by the government and 60 percent by foreign banks; and the TDB, established in 1977 with the government as majority shareholder and the BOT as minority shareholder, though now it is wholly owned by the government. The central bank, i.e., the National Reserve Bank of Tonga (NRBT) was established in 1989. Previously, the BOT performed some of the central bank's functions, including holding the country's international reserves. The other two commercial banks were established in late 1993: the ANZ Bank, which is a branch of the Australia and New Zealand Banking Group Ltd. of Australia, and the MBf Bank, which is a locally incorporated joint venture, with the MBf Finance Company of Malaysia as the main shareholder. There are a few other small-scale financial institutions such as money transfer unions and insurance companies whose activities are limited.

B. The National Reserve Bank of Tonga

43. **Tonga's central bank, the NRBT, was established by the National Reserve Bank of Tonga Act 1988.** Prior to its establishment, the national currency was issued by the Commissioner for Currency and Coinage, and the country's foreign reserves were managed by the BOT. Upon inception, the NRBT took over management of the country's official reserves from the BOT.

44. **Monetary policy objectives of the NRBT are to maintain an adequate level of foreign exchange reserves and a low inflation rate.** More specifically, the NRBT aims to maintain gross foreign reserves equal to or more than three months of imports, and inflation

⁵According to the Asian Development Bank (AsDB), there are close to 50 trading activities being controlled by the government. The World Bank's 1997 Public Expenditure Review indicates that, as of 1995, the government owned T\$40 million in equity in public sector enterprises.

at less than 3 percent (as measured by the consumer price inflation on year average). As an intermediate target, the NRBT follows closely private sector credit growth.

45. **Indirect monetary policy instruments of the NRBT are as follows (Figure 3):**

- **NRBT bills** are used to influence the liquidity in the market. Due to financial constraints (see below), the NRBT stopped issuing 3-month NRBT bills (at 5.5 percent) in 1998 and maintains only 1-month NRBT bills (at 3.5 percent).
- **The discount rate** is determined on the basis of the minimum lending rate (MLR) set by the NRBT. For repurchase agreements up to ten days, the discount rate is set at MLR plus 2 percent; for ten days, the discount rate is set at MLR plus 4.5 percent. The MLR was raised three times (but never lowered) since 1995. The latest increase was in July 2000, when it was raised from 9 percent to 12 percent.
- **Reserve requirement** was introduced in 1993 when banks were required to place 5 percent of their nongovernment pa'anga deposits with the NRBT. They are not remunerated. The ratio was raised to 10 percent in December 1995, to 12 percent in September 1998, and to 15 percent in September 2000.

46. **Several direct monetary policy instruments have been used to control money growth.** In 1997/98, to contain loss of foreign reserves, the NRBT imposed a 30 percent deposit cash margin on all new loans with the exception of export and tourism sector loans until it was eliminated in April 1999. In July 2000, the use of credit ceilings was officially approved by the Privy Council.

47. **The NRBT resorted to more direct means of controlling monetary aggregates, including through credit ceilings.** When the NRBT was initially established, the net foreign assets position was transferred from the BOT largely by issuing the NRBT bills.⁶ With no financial support from the MOF, and the gradual loss of foreign reserves, the income position of the NRBT worsened, forcing it to abandon the more expensive 3-month bills. Even then, the NRBT bill rates have been below equivalent market rates. While part of the liquidity was absorbed through growth of credit to the private sector, banks are still left with large excess liquidity, forcing the NRBT to use more direct means to control money.

C. Money and Credit Development

48. **Broad money increased by 15 percent and 8½ percent in 1998/99 and 1999/00, respectively (Table 17, Figure 4).** Key contribution to broad money growth came from a buildup in net foreign assets responding to the NRBT's efforts to contain credit growth.

⁶Before the issuance of the NRBT bills in April 1993, NRBT's liability position vis-à-vis the BOT was maintained in the form of BOT's long-term deposits with the NRBT.

Although money demand declined somewhat, the level of velocity in 1998/99 remained stable in response to a pickup in growth. However, velocity declined in 1999/00 reflecting an increase in real money demand linked to economic recovery.

49. **Monetary conditions were tightened in 1998/99 and again in early 2000/01 in response to official reserves losses.** During 1998/99, in addition to an informal credit ceiling, the monetary authorities raised the reserve requirement ratio from 10 percent to 12 percent, increased the NRBT's MLR from 7 percent to 9 percent, and imposed a 30 percent deposit cash margin on most new loans.⁷ Under these measures, credit was quickly arrested and official reserves stabilized; the 30 percent cash margin was subsequently removed in April 1999. In response to a renewed spree of official reserves losses, the reserve requirement ratio was raised to 15 percent as of September 2000, the minimum lending rate was further raised to 12 percent, and the use of the credit ceiling was officially approved by the Privy Council in July 2000.

50. **Under a tight monetary policy, private sector credit growth slowed to 2 percent in 1998/99, from 21 percent in the previous year, and was contained at 7 percent in 1999/00.** Loans and advances of commercial banks increased by 8½ percent during these two years (Table 21) in large part due to the 32 percent credit growth to the industry and trade sector related to opening up of new supermarkets and other shops and the tourism industry. Credit to the agricultural sector also picked up, reflecting a bound in agricultural production. Loans and advances made by the TDB declined by 21.8 percent during the same period mainly due to the write-down of T\$5 million and improved loan recovery (Table 22).

51. **Commercial banks' base lending rates have, however, remained unchanged at 9 percent during the last two years** (Table 23). The rigidity of interest rates implied a decline in real lending rates given the acceleration of inflation during the last two years. Average saving and time deposit rates have also declined only marginally in nominal terms from 5.1 percent in June 1998 to 4.8 percent in June 2000. Hence, the interest rate spread has remained relatively constant at about 5 percent, which is not uncommon in the region. The large spread is attributed to high costs arising from doing banking business in widely scattered and remote outer islands.

D. Banking Supervision and Bank Soundness

52. **The NRBT has the authority and the responsibility to supervise financial institutions.** The main focus of the NRBT's supervision efforts is to ensure compliance with the provisions of the Financial Institutions Act and the prudential regulations in effect (e.g., on capital adequacy, loan classification and provisioning, and lending limits). The supervision is conducted mainly off-site, through the analysis of monthly and quarterly

⁷Exceptions were export and tourism sector loans.

reports, and is complemented occasionally by on-site inspections. The bank supervision staff consists of two technical and two support staff.

53. In November 1998 new capital adequacy, loan classification, and provisioning guidelines were issued. The NRBT introduced a risk-weighted capital adequacy ratio of 15 percent for commercial banks and 18 percent for development banks. The consolidated risk-weighted ratio for all commercial banks was 22.5 percent at the end of 1999, but the ratios of individual banks are characterized by wide disparities. The loan classification guidelines provide a uniform methodology for the treatment and reporting of loans. The provisioning guidelines require minimum provisions be set aside for problem loans as well as a general provision to cover possible losses not yet identified.

54. Total assets of the banking system have remained almost unchanged in the past two years, reaching T\$140 million as of June 2000. Deposits increased by 21 percent, while capital declined by nearly 40 percent over the past two and a half years. The decline is due mainly to the distribution of profits from previous periods by a commercial bank in 1999.

55. While banks have made efforts since 1997 to clean up their loan portfolios, one of the three commercial banks is in serious financial distress. The other two banks are well capitalized, have sound portfolios, and have been profitable, particularly during the last two years. The problem bank, which has a large amount of nonperforming loans, has never had a profitable year. In addition, the development bank is undergoing a major restructuring (with the support of the AsDB) focused on its lending practices, and is also in need of capital injection.

56. Profitability of the banking system improved significantly in 1998 and 1999, as pretax earnings reached 3.7 percent and 5.1 percent of average assets, respectively. During 1995–97, the portfolio of commercial banks deteriorated as a result of the slowdown in the economy. Efforts to improve risk assessment and lending practices, together with increased provisioning and write-offs, led to healthier portfolios. At the same time, efforts were made to lower expenses and increase revenues from nonlending activities. These efforts, together with a high net interest margin, led to improved profitability the past two years.

V. EXTERNAL SECTOR

A. Overview

57. Tonga's external balance of payments can be characterized by large trade deficits, workers' remittances and tourism receipts (Figure 5). While large trade deficit positions are not uncommon in small South Pacific countries, Tonga is unique in its heavy reliance on workers' remittances. External current account deficits have averaged 5–6 percent of GDP, largely financed by official inflows, comprising concessional loans and grants. However, in tandem with global developments, official flows to Tonga have been declining

which, together with a widening trade balance, has reduced official reserves in the last few years.

B. Merchandise Trade

58. **Squash, the main export item since the late 1980s, accounts for about 50 percent of total merchandise exports** (Tables 24 and 25). Tonga produces a special kind of squash, often referred to as “Kabocha squash,” intended primarily for export to Japan. Since the Japanese season for squash production ends in November, and New Zealand’s season does not start until January, Tonga has a small window of opportunity to dominate the squash market in Japan. Squash exports have created a highly seasonal export earning pattern. Apart from being vulnerable to weather and market conditions in Japan, increasing competition from other countries, such as Mexico, has reduced prices from their peak during the 1995 season. Unless alternative markets can be found, it is unlikely that squash exports could rise in the future.

59. **Tonga is promoting the fishery industry as a new source of foreign exchange earnings.** Assistance has been provided by the AsDB through its financial support for a fisheries project, and licenses were recently issued to a few fishing companies that have hired expatriates knowledgeable about deep-sea fishing. While Tonga has been exporting root crops and vanilla, prospects are not good due to high transportation costs and competition from other countries. Furthermore, exports of root crops have been small-scale, catering largely to Tongans living abroad. To diversify its exports, Tonga is experimenting with other products such as kava, nonu leaves, and pearl farming. Meanwhile, manufactured goods exports still remain below US\$1 million a year and it is unlikely to grow rapidly in the immediate future.

60. **Consumer and intermediate goods account for more than 80 percent of Tonga’s total merchandise imports** (Table 26). In 1999/00, merchandise imports increased at a faster pace than real GDP growth, reflecting a pickup in imports in the wake of the millennium celebration events that appear not to have subsided so far. The value of fuel and its related items has also increased in part owing to fuel price increases and increased fuel consumption in tandem with the sharp increase in the sales of motor vehicles. In addition, a few large one-off imports, e.g., an electricity generator for Vava’u and two fishing boats, contributed to the sharp increase in imports.

61. **The United States is the largest exporting country to Tonga, followed by Australia, Fiji, and New Zealand** (Table 27). Imports from the United States and Australia account for about 35 percent and 30 percent of total imports, respectively. On the export side, however, Japan is the largest trading partner, absorbing about one-half of Tonga’s total exports. Japan imports not only squash from Tonga, but is also a major importer of fish.

62. **The New Zealand and the U.S. dollars are the most heavily used currencies for international transactions.** More specifically, the New Zealand and the U.S. dollars account for 34 percent and 38 percent of total volume of transactions for imports, respectively,

followed by the Australian dollar (12 percent of total imports). For exports, the Japanese yen and the U.S. dollar are the two key currencies with their shares each accounting for 43 percent and 44 percent, respectively.

C. Services and Income

63. **Net service receipts declined in 1999/00 despite a temporary boom in tourism** (Table 28). The decline is associated with the ending of receipts from several sources due to: (i) the conclusion of a large aid-funded (EEC) construction project in 1998; (ii) the closure of a foreign diplomatic mission in Tonga, which usually provided about T\$1 million annually; and (iii) the taking over by the government of international telecommunication services that used to be provided by a foreign company, losing about T\$2 million in royalty payments annually.

64. **The temporary boom in tourism was related to the millennium celebration events in December 1999 and a major church conference in May 2000.** While these events boosted the number of visitors for the first part of 2000, the average amount of spending per tourist has not recovered since it dropped by about T\$110 per visitor in 1998/99, when the King's 80th birthday attracted many Tongans living abroad, who normally spend less than foreign tourists. Limited hotel accommodation is regarded as a key bottleneck for further development of the tourism industry. Tourism remains, nevertheless, a key source of foreign exchange receipts.

65. **Service payments increased significantly in 1999/00 due to nonrecurrent expenditures.** Tonga chartered five additional aircraft to accommodate the sudden increase in visitors related to the millennium celebration events. Absent these payments, service payments were in line with the increase in merchandise imports. About 16 percent of imports is considered as insurance and freight costs. Other transportation costs have also increased, reflecting higher oil prices.

66. **The income balance worsened and turned to deficit in 1999/00 for the first time in many years.** The increased payments are associated with the special dividend payment by a bank. Income receipts declined mostly due to a drop in royalty payments by a private satellite leasing company.

D. Current Transfers

67. **Net current transfers improved significantly in 1999/00 due to an increase in private remittances.** The increase in private transfer receipts is also associated with the special events, as noted above, such as the millennium celebration events and the church conference. However, private transfer payments are rising due to increased remittances for children studying abroad and their living costs. The official current transfer balance worsened slightly in 1999/00 mainly due to a decline in interest receipts on account of the lower level of official foreign reserves.

68. **Private transfers are associated either with private households or nonprofit organizations, mainly churches.** The amount of transfers by nonprofit organizations vary greatly depending on fund raising activities conducted by churches and schools. As both transfer categories draw from the same Tongan community residing abroad, an increase of transfers from one category tends to reduce transfers from the other category. A large number of Tongan migrants reside in the United States, New Zealand, and Australia. It is estimated that about the same number of Tongans live abroad as the population in Tonga, of which about 40,000 reside in the United States, 17,000 in New Zealand, and 12,000 in Australia. A survey conducted informally in 1999 suggests that a part of workers' remittances were provided by Tongans residing abroad as illegal workers. The recent tightening of immigration policies in these countries is thus likely to affect these inflows.

E. Capital Account and Debt

69. **The capital account worsened drastically in 1999/00 due largely to a deterioration in net private capital flows.** Private capital and investment outflows increased substantially as a few overseas investments were made by Tongan business operators and individuals. There were also a few purchases by residents of formerly foreign-owned properties in Tonga (e.g., a supermarket). The official capital balance recorded a small deficit following the completion of aid projects and the withdrawal of one overseas diplomatic mission from Tonga.

70. **Total external debt at end-July 2000 was US\$62.2 million, or 40 percent of GDP.** This compares with a stock of debt of US\$66.6 million a year earlier. More than 80 percent of debt outstanding is owed to multilateral creditors, of which the AsDB is the largest single creditor, accounting for about 60 percent of total debt (Tables 29 and 30). Although amortization increased from the previous year, the debt-service ratio as a percent of merchandise exports remained at about 10 percent, partly due to low interest payments. Owing to the concessionary nature of most of these loans, the average interest rate remained below ½ percent.

F. Foreign Reserves and Exchange Rate

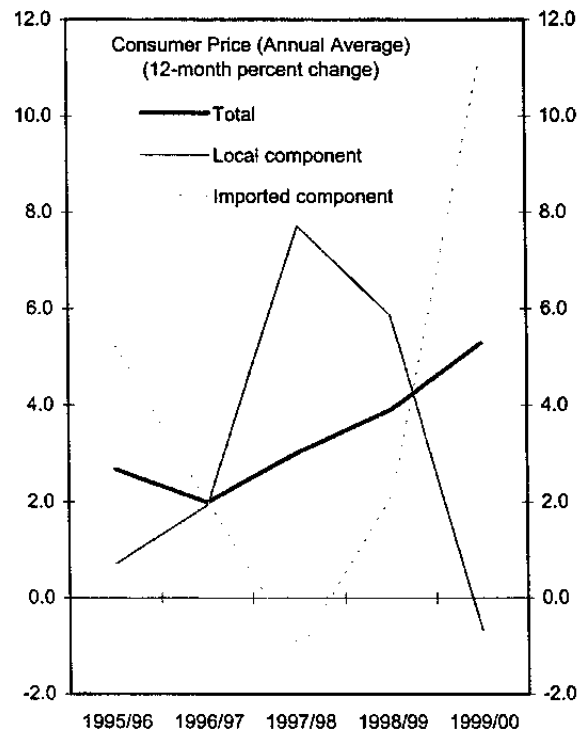
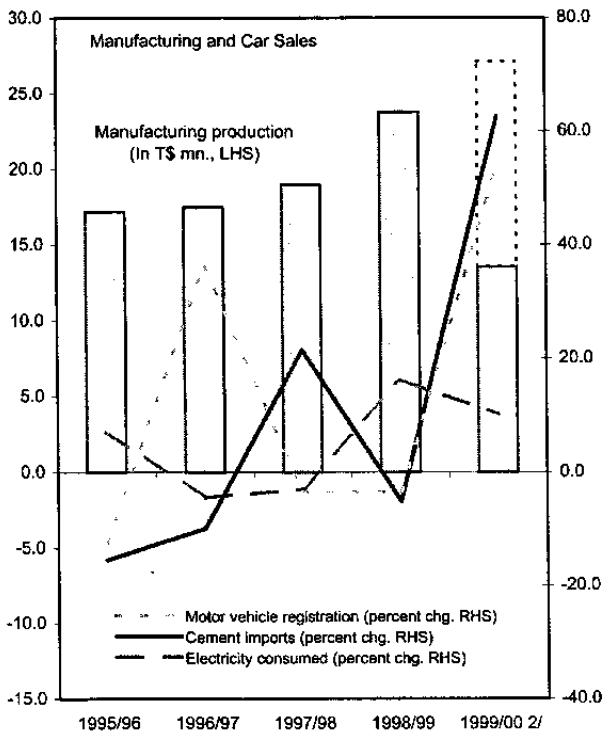
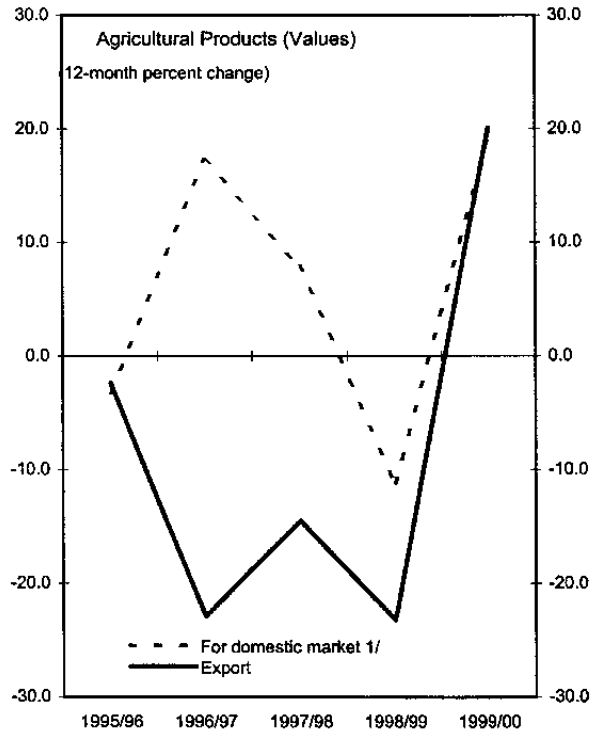
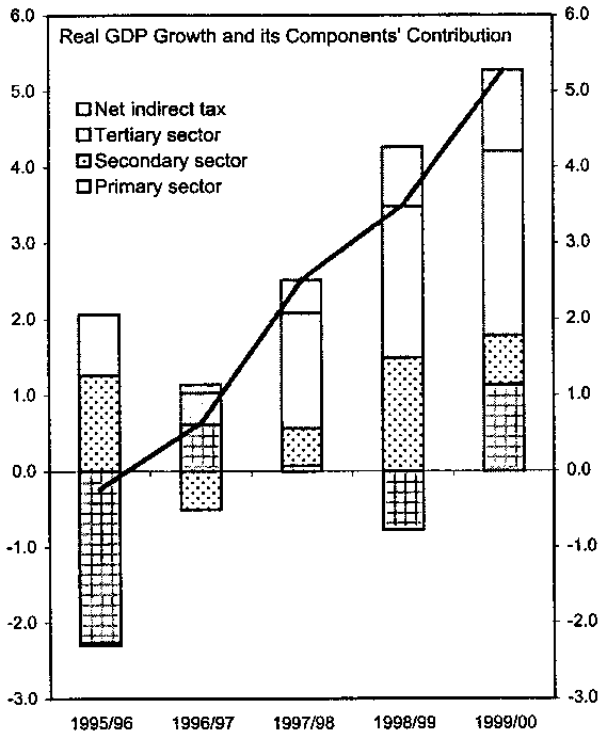
71. **Official international reserves started to decline again in 1999/00 after it had barely recovered from a sharp drop in 1997/98.** During 1998/99, foreign international reserves recovered to 3.3 months of imports of goods and services, from 2.4 months of imports a year earlier. This was achieved by tightened monetary policy and, to a lesser extent, inflows from various sources, such as aid money from the People's Republic of China. However, foreign reserves started to decline in December 1999 due to a widening trade deficit, as well as smaller capital inflows, as noted above. The strength of domestic demand has continued in the current fiscal year and foreign reserves have dropped closer to two months of imports at end-August 2000.

72. **The pa'anga has depreciated by 27 percent vis-à-vis the U.S. dollar since mid-1996.** This development is broadly in line with the evolution of the currencies of Tonga's

main trading partners, which have also depreciated vis-à-vis the U.S. dollar. Hence, the pa'anga depreciated vis-à-vis the Australian dollar only by 4 percent, and appreciated by 7 percent each against the New Zealand and the Fiji dollars. In addition, Tonga's inflation was somewhat higher than its major trading partners such that in real effective terms, the pa'anga has depreciated by only about 4 percent (Figure 6).

73. **The exchange rate regime of the pa'anga was modified in July 2000.** The pa'anga, which was initially pegged to the Australian dollar in 1991, was subsequently pegged to a currency basket comprising the U.S., the Australian, and the New Zealand dollars. The Asian crisis as well as the sharp drop in reserves in 1997/98 led the authorities to rethink the exchange regime; a band was introduced in March 1998 that allowed the pa'anga to deviate from the rate dictated by the currency basket by up to 2 percent. In July 2000, the band was widened to 5 percent and the Japanese yen was included in the currency basket as Japan became increasingly important as a trading partner.

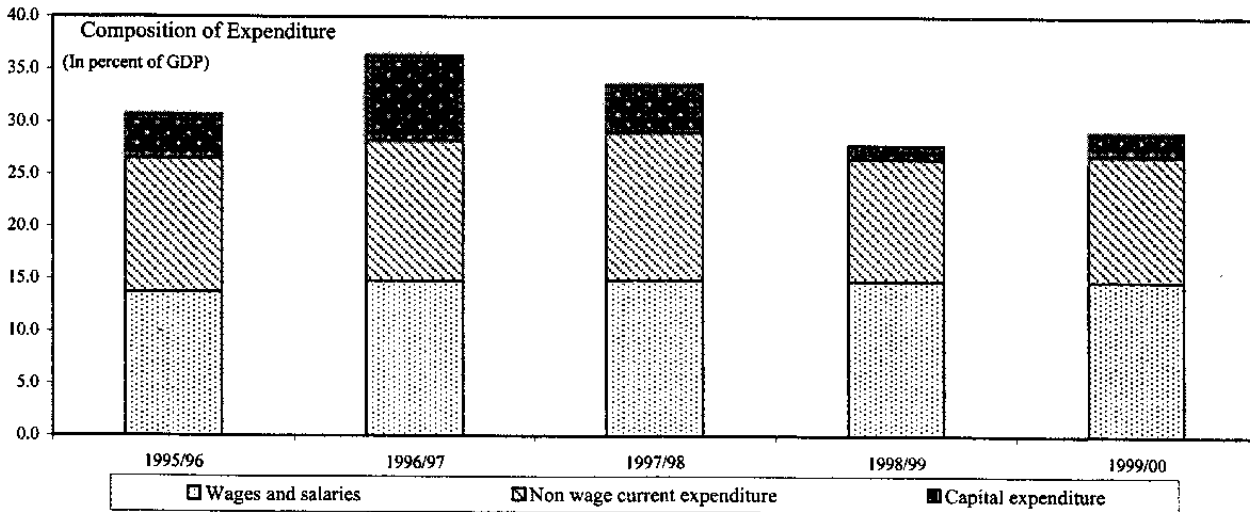
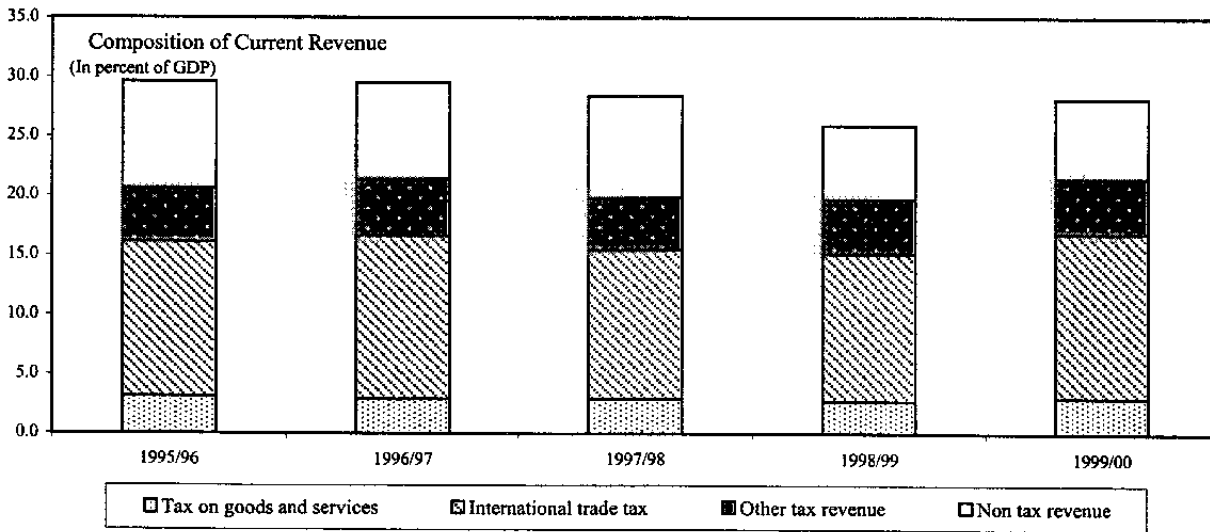
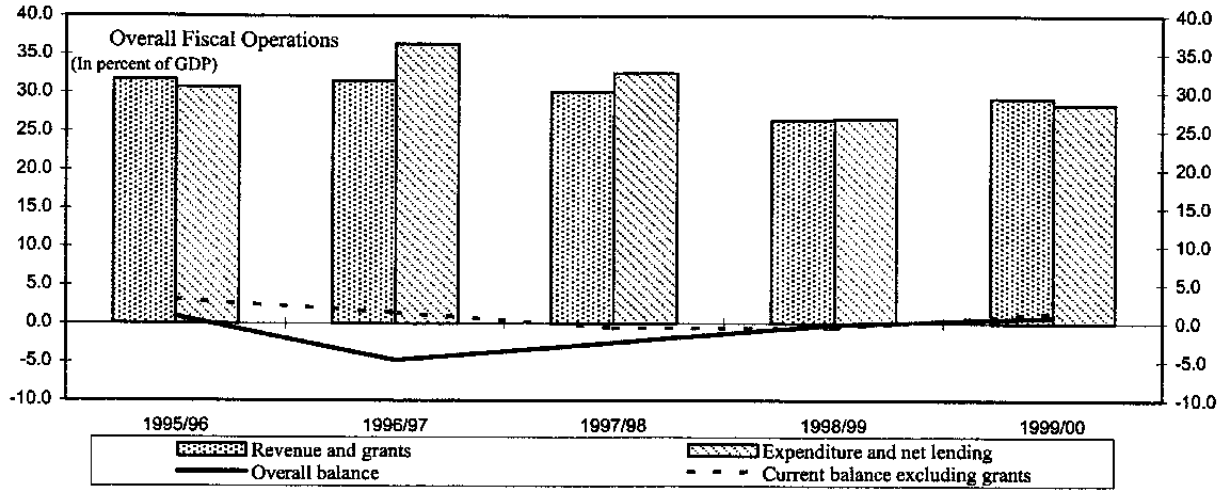
Figure 1. Tonga: Real Sector Indicators, 1995/96-1999/00



1/ Based on agricultural products sold in Talamahu market (the main market in Tonga for agricultural products).

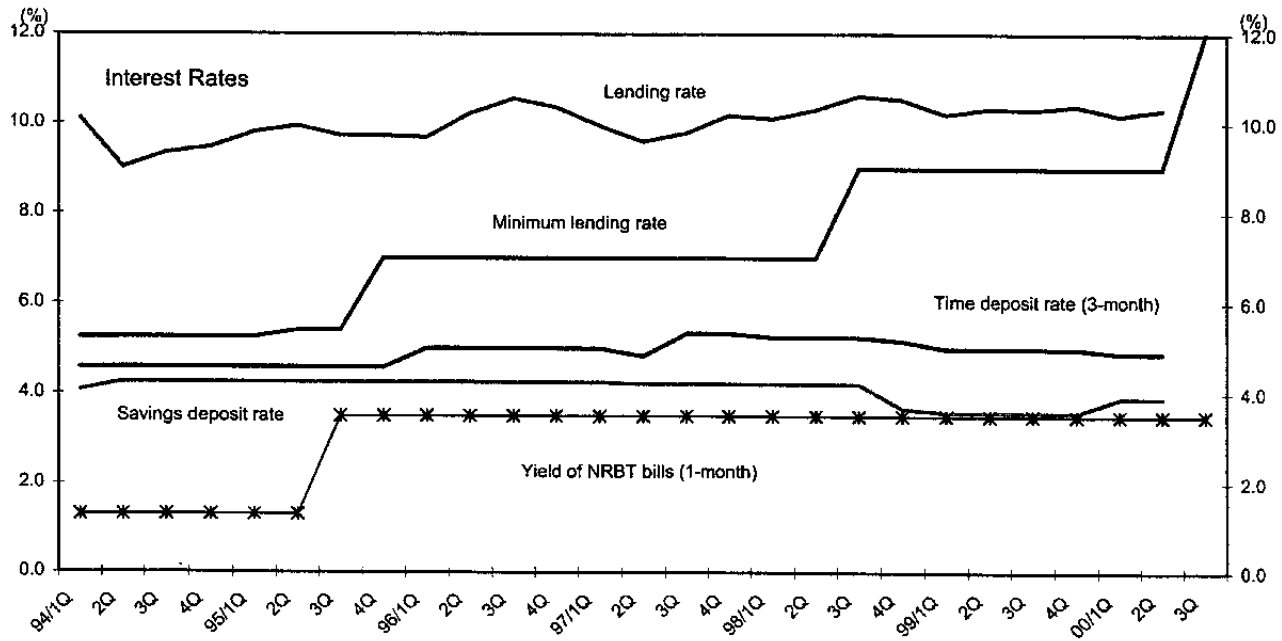
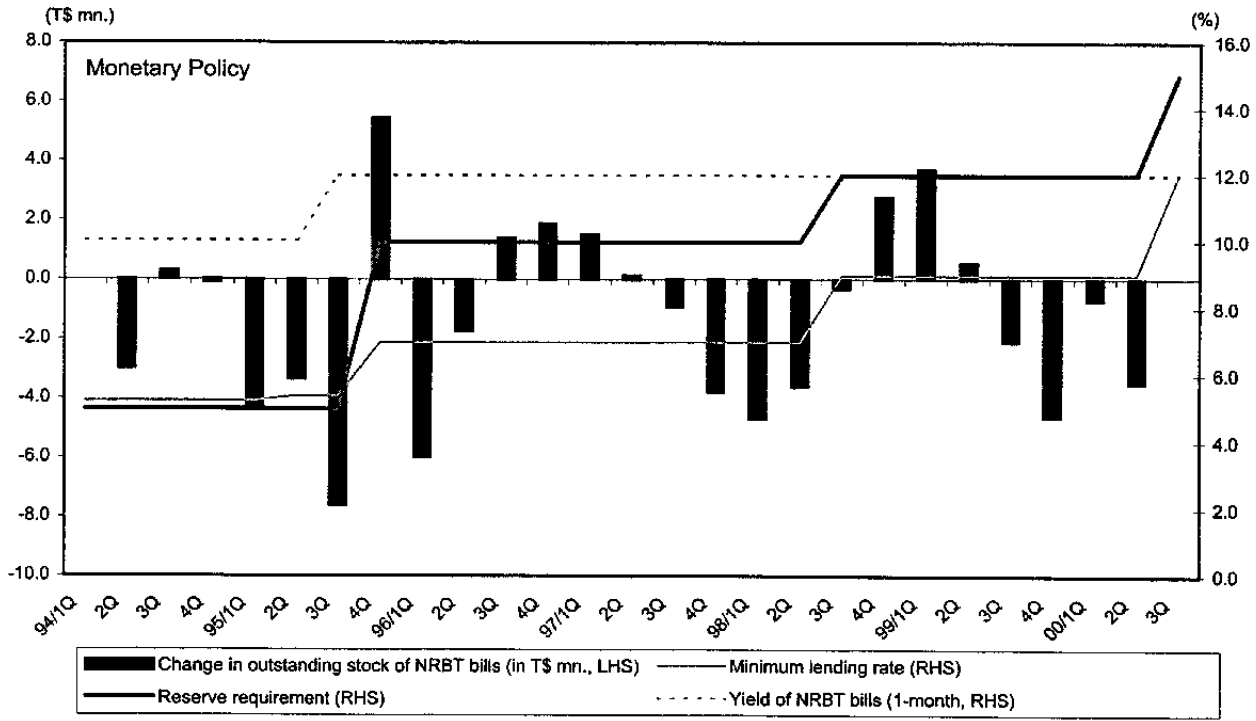
2/ Data for 1999/00 are staff estimates based on the actual data for the first half of the fiscal year.

Figure 2. Tonga: Fiscal Indicators, 1995/96-1999/00



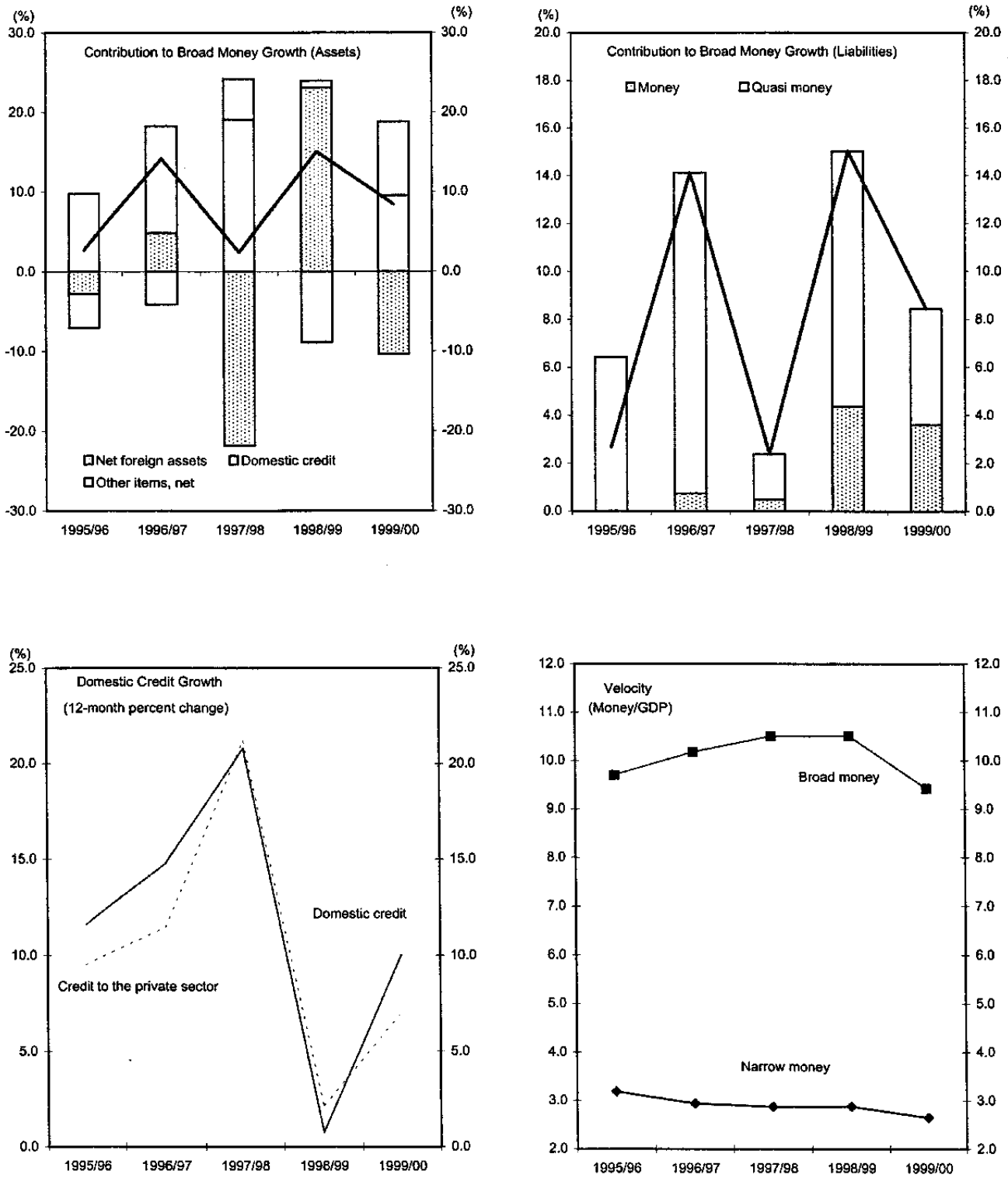
Sources: Data provided by the Tongan authorities; and Fund staff estimates.

Figure 3. Tonga: Interest Rate Indicators, 1994-2000



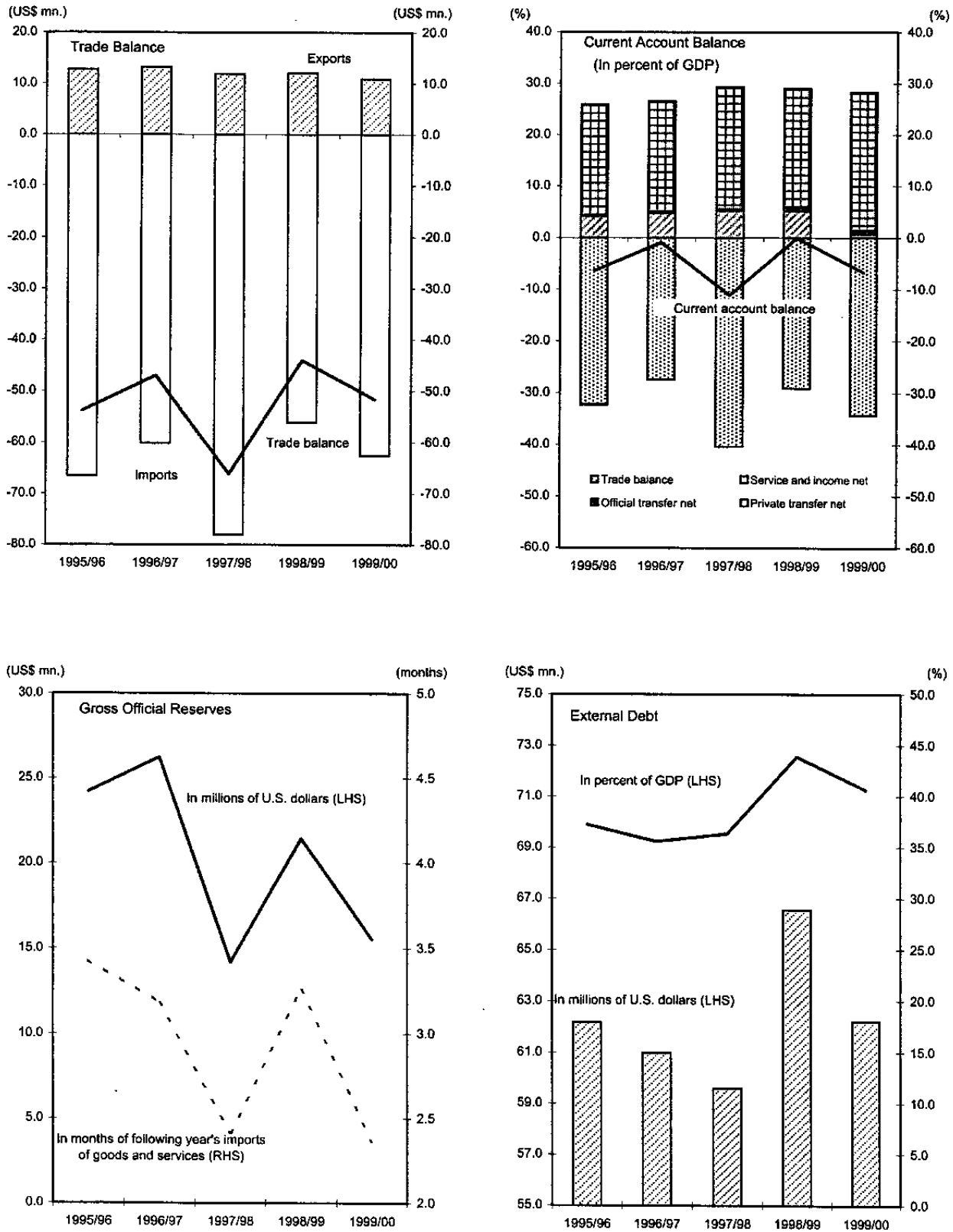
Sources: Data provided by the Tongan authorities; and Fund staff estimates.

Figure 4. Tonga: Monetary Indicators, 1995/96-1999/00



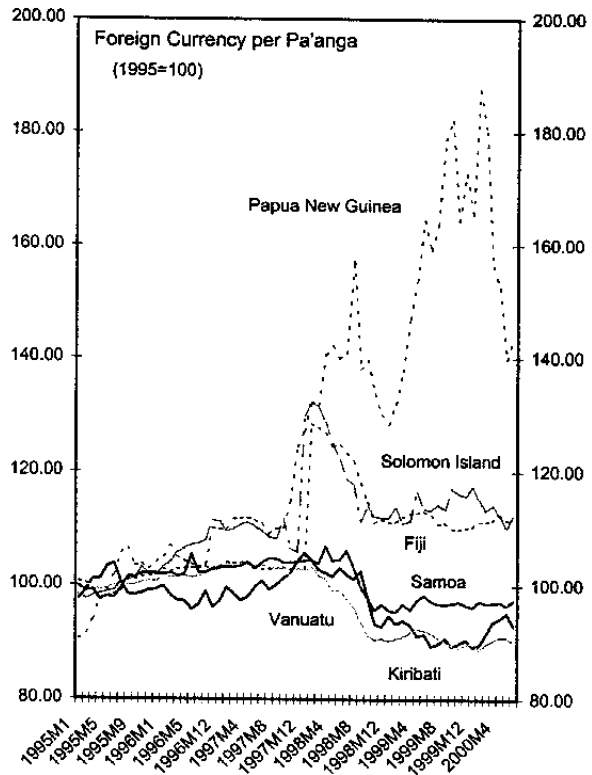
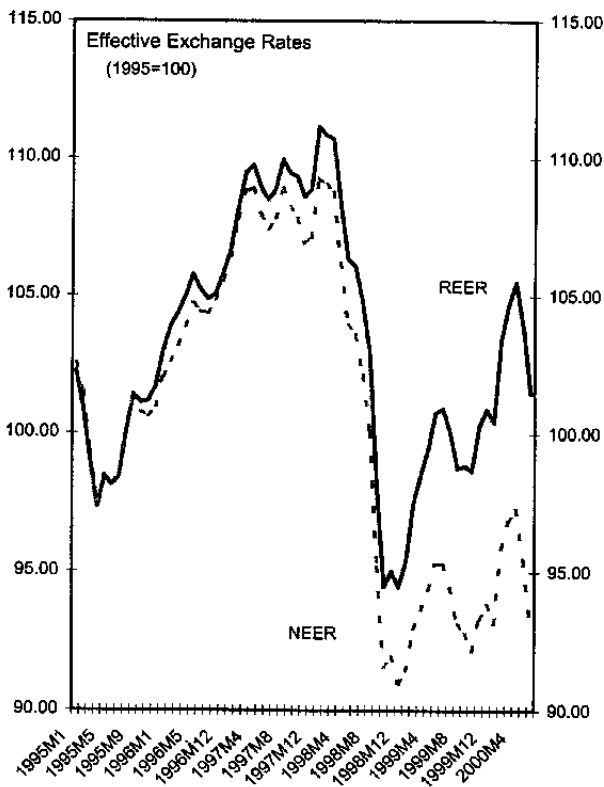
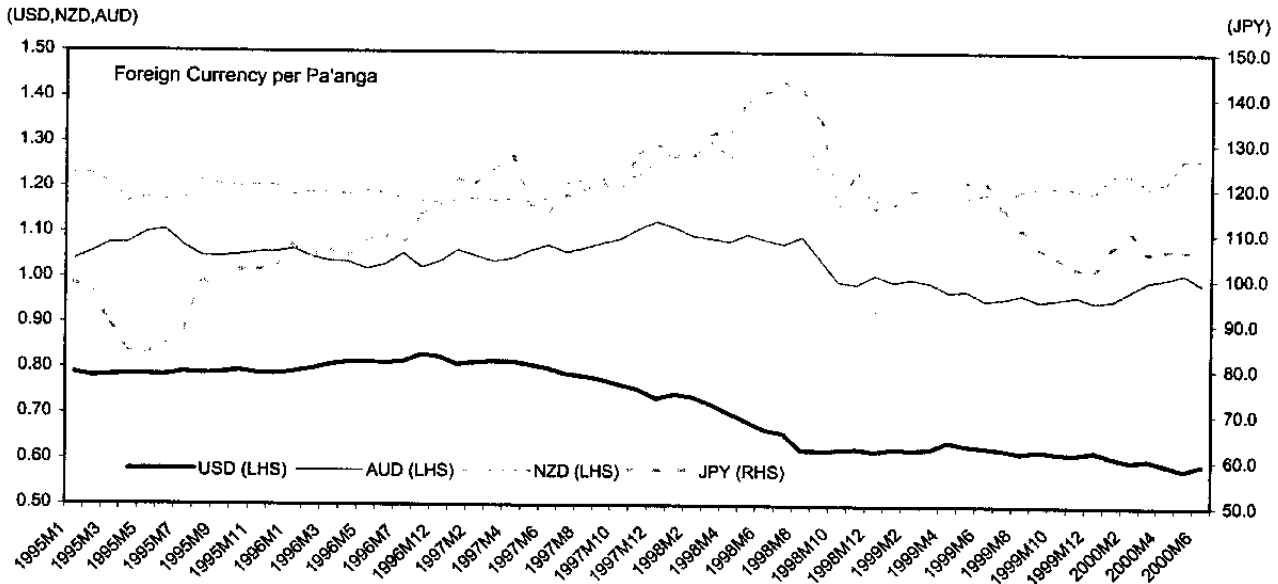
Source: Data provided by the Tongan authorities.

Figure 5. Tonga: External Sector Indicators, 1995/96-1999/00



Sources: Data provided by the Tongan authorities; and Fund staff estimates.

Figure 6. Tonga: Exchange Rate Indicators, 1995/96-1999/00



Sources: Data provided by the Tongan authorities; and Fund staff estimates.

Table 1. Tonga: Real Gross Domestic Product by Sector of Origin, 1995/96-1999/00
(In 1995/96 Prices)

	1995/96	1996/97	1997/98	Est. 1998/99	Est. 1999/00
	(In millions of pa'anga)				
Primary sector					
Agriculture, forestry, and fisheries	53.2	54.5	54.7	53.0	55.6
Secondary sector	26.2	25.1	26.1	29.4	30.8
Mining and quarrying	1.3	0.7	0.6	0.7	0.7
Manufacturing	7.9	7.9	8.8	10.2	11.0
Electricity and water	4.0	3.9	3.9	4.3	4.8
Construction	13.0	12.6	12.8	14.1	14.3
Tertiary sector	94.4	95.3	98.5	102.8	108.2
Commerce, restaurants, and hotels	25.8	23.9	25.1	23.7	27.3
Transportation and communications	14.9	15.1	15.9	17.6	18.8
Finance and real estate	14.4	15.4	17.6	18.3	17.7
Government services	29.5	31.0	31.1	33.9	34.4
Entertainment and private services	10.5	10.7	10.8	11.0	11.2
Ownership of dwellings	8.2	8.3	8.4	8.5	8.6
Less: Imputed bank service charge	8.9	9.0	10.4	10.3	9.9
Total GDP at factor costs	173.8	174.9	179.3	185.2	194.6
Net indirect taxes	36.0	36.2	37.2	38.9	41.2
Total GDP at constant market prices	209.8	211.2	216.5	224.0	235.8
	(Percent change)				
Primary sector					
Agriculture, forestry, and fisheries	-8.2	2.4	0.3	-3.0	4.8
Secondary sector	11.3	-4.1	4.2	12.3	4.9
Mining and quarrying	-1.6	-50.6	-1.1	14.3	-0.1
Manufacturing	11.9	0.3	11.4	16.4	7.8
Electricity and water	3.3	-2.1	-0.1	10.8	10.0
Construction	15.1	-2.5	1.3	9.9	1.5
Tertiary sector	1.8	0.9	3.4	4.4	5.3
Commerce, restaurants, and hotels	-6.1	-7.4	4.9	-5.6	15.6
Transportation and communications	6.2	1.1	5.3	11.1	6.8
Finance and real estate	-5.4	6.6	14.5	4.2	-3.3
Government services	11.8	5.0	0.3	8.9	1.5
Entertainment and private services	1.9	1.8	1.8	1.8	1.8
Ownership of dwellings	1.3	1.3	1.3	1.3	1.3
Less: Imputed bank service charge	0.9	1.1	15.3	-1.3	-3.3
Total GDP at factor costs	-0.2	0.6	2.5	3.3	5.1
Net indirect taxes	-0.2	0.6	2.5	4.6	6.2
Total GDP at constant market prices	-0.2	0.6	2.5	3.5	5.3
Memorandum items:					
GDP deflator	5.7	-0.5	2.8	4.7	-2.2
GDP at current market prices	5.4	0.2	5.3	8.4	3.0

Sources: Data provided by the Tongan authorities; and Fund staff estimates.

Table 2. Tonga: Nominal Gross Domestic Product by Sector of Origin, 1995/96-1999/00

	1995/96	1996/97	1997/98	Est. 1998/99	Est. 1999/00
	(In millions of pa'anga)				
Primary sector					
Agriculture, forestry, and fisheries	53.2	51.1	57.1	63.5	58.6
Secondary sector	26.2	25.2	26.1	29.9	32.5
Mining and quarrying	1.3	0.8	0.7	0.9	0.9
Manufacturing	7.9	8.0	8.7	11.0	11.6
Electricity and water	4.0	3.7	3.5	3.5	3.9
Construction	13.0	12.7	13.1	14.6	16.1
Tertiary sector	94.4	96.6	102.1	109.5	118.5
Commerce, restaurants, and hotels	25.8	24.3	26.3	25.8	30.6
Transportation and communications	14.9	15.0	15.7	17.2	18.2
Finance and real estate	14.4	15.7	18.4	20.0	20.2
Government services	29.5	31.6	32.6	36.9	38.5
Entertainment and private services	10.5	10.9	11.4	12.0	12.6
Ownership of dwellings	8.2	8.4	8.6	8.8	9.8
Less: Imputed bank service charge	8.9	9.2	10.9	11.2	11.3
Total GDP at factor costs	173.8	172.9	185.3	202.9	209.6
Net indirect taxes	36.0	37.2	36.1	37.0	37.6
Total GDP at current market prices	209.8	210.2	221.4	240.0	247.2
	(In percent of total)				
Primary sector					
Agriculture, forestry, and fisheries	25.4	24.3	25.8	26.4	23.7
Secondary sector	12.5	12.0	11.8	12.5	13.1
Mining and quarrying	0.6	0.4	0.3	0.4	0.3
Manufacturing	3.7	3.8	3.9	4.6	4.7
Electricity and water	1.9	1.8	1.6	1.5	1.6
Construction	6.2	6.1	5.9	6.1	6.5
Tertiary sector	45.0	46.0	46.1	45.6	48.0
Commerce, restaurants, and hotels	12.3	11.6	11.9	10.7	12.4
Transportation and communications	7.1	7.1	7.1	7.2	7.3
Finance and real estate	6.9	7.5	8.3	8.3	8.2
Government services	14.1	15.0	14.7	15.4	15.6
Entertainment and private services	5.0	5.2	5.1	5.0	5.1
Ownership of dwellings	3.9	4.0	3.9	3.7	3.9
Less: Imputed bank service charge	4.2	4.4	4.9	4.7	4.6
Total GDP at factor costs	82.8	82.3	83.7	84.6	84.8
Net indirect taxes	17.2	17.7	16.3	15.4	15.2
Total GDP at current market prices	100.0	100.0	100.0	100.0	100.0

Sources: Data provided by the Tongan authorities; and Fund staff estimates.

Table 3. Tonga: Agricultural Products Marketed in Tonga, 1995/96-1999/00 1/
(1987/88=100)

	1995/96	1996/97	1997/98	1998/99	9 months 1999/00
	(12-month percent change) 2/				
Values					
Total	-3.2	17.2	7.9	-11.2	19.0
Root crops	-19.1	12.7	36.4	0.4	35.1
Coconuts	0.5	60.8	9.4	-5.4	-12.6
Bananas	-6.6	-0.9	11.0	-49.5	-17.3
Watermelon	16.2	10.0	-34.0	-7.7	24.4
Other fruit	37.0	-19.8	-4.4	6.2	-32.8
Vegetables	12.1	47.8	-10.0	-35.8	-7.5
Miscellaneous	-22.1	122.8	268.7	-63.0	-59.8
Volumes					
Total	-2.3	25.2	-7.3	-24.5	47.9
Root crops	-7.1	10.9	15.9	-13.2	69.6
Coconuts	6.6	83.7	-7.8	-22.9	3.6
Bananas	26.7	30.9	-40.3	-66.2	32.6
Watermelon	3.6	25.1	-43.7	-20.2	46.1
Other fruit	24.2	-9.6	-38.1	1.3	-22.3
Vegetables	-21.4	51.1	2.4	-53.4	11.7
Miscellaneous	-12.9	137.7	45.6	-70.0	-39.0
Unit values					
Total	-1.0	-6.4	18.1	16.0	-19.2
Root crops	-12.9	1.6	12.5	21.2	-19.4
Coconuts	-5.7	-12.5	24.9	16.5	-8.7
Bananas	-26.3	-24.3	100.6	38.6	-36.9
Watermelon	12.2	-12.1	15.2	17.6	-7.0
Other fruit	10.3	-11.3	50.8	7.4	-18.8
Vegetables	42.7	-2.2	-8.2	32.1	-15.2
Miscellaneous	-10.6	-6.2	105.9	51.8	-31.6

Sources: Data provided by the Tongan authorities; and Fund staff estimates.

1/ Data reflect agricultural products sold in Talamahu market.

2/ For 1999/00, percent change calculated on the same period in 1998/99.

Table 4. Tonga: Production of Manufactured Goods, 1995/96-1999/00

	1995/96	1996/97	1997/98	1998/99	6 months 1999/00
(In thousands of pa'anga)					
Food products and beverages	8,476	9,412	10,531	12,895	7,707
Textile	214	134	112	138	101
Wearing apparel	238	301	187	136	84
Leather products	286	273	266	144	38
Publishing and printing	1,246	968	1,182	1,073	648
Nonmetallic mineral products	660	601	798	1,104	548
Fabricated metal products	946	761	435	1,549	1,137
Other transport equipments	52	40	2	13	9
Furniture and other industries 1/	5,038	4,975	5,422	6,698	3,285
All manufactured goods	17,156	17,465	18,935	23,748	13,558
(12-month percent change) 2/					
Food products and beverages	...	11.0	11.9	22.4	28.6
Textile	...	-37.2	-16.5	23.6	43.6
Wearing apparel	...	26.3	-37.9	-27.3	29.8
Leather products	...	-4.8	-2.5	-46.0	-53.6
Publishing and printing	...	-22.3	22.1	-9.2	16.8
Nonmetallic mineral products	...	-8.9	32.8	38.4	0.0
Fabricated metal products	...	-19.6	-42.8	255.9	83.1
Other transport equipments	...	-22.4	-96.1	694.7	154.8
Furniture and other industries 1/	...	-1.3	9.0	23.5	-1.3
All manufactured goods	...	1.8	8.4	25.4	20.3

Sources: Data provided by the Tongan authorities; and Fund staff estimates.

1/ Other industries include chemicals and chemical products, manufacture of wood products, machinery, and equipment.

2/ For 1999/00, percent change calculated over the first six months in 1998/99.

Table 5. Tonga: Indicators of Economic Activity, 1995/96-1999/00

	1995/96	1996/97	1997/98	1998/99	9 months 1999/00
Electricity consumed (thousand kw)	27,373	26,142	25,359	29,459	23,871
Cement imports (million tons)	8,923	8,035	9,762	9,259	12,049
New registrations of motor vehicles (number)	1,046	1,424	1,374	1,327	1,411
Retail petrol prices (seniti, end of period)	63	73	67	62	77.7
Electricity prices (seniti, end of period)	36	36	27	27	27.0
	(12-month percent change) 1/				
Electricity consumed	7.1	-4.5	-3.0	16.2	10.1
Cement imports	-15.5	-10.0	21.5	-5.2	62.6
New registrations of motor vehicles	-12.5	36.1	-3.5	-3.4	53.5
Retail petrol prices	-1.4	15.5	-8.8	-7.2	23.9
Electricity prices	0.0	0.0	-25.0	0.0	0.0

Sources: Data provided by the Tongan authorities; and Fund staff estimates.

1/ For 1999/00, percent change calculated over the first nine months in 1998/99.

Table 6. Tonga: Tourism Statistics, 1995/96-1999/00

	1995/96	1996/97	1997/98	1998/99	1999/00
Number of air arrivals	27,754	24,306	26,615	27,709	32,944
(Percent change)	-4.3	-12.4	9.5	4.1	18.9
Country of origin (in percent of total)					
Australia	15.9	17.2	17.0	17.1	18.2
New Zealand	32.6	32.1	31.6	31.5	30.2
United States	20.9	19.2	19.6	19.3	20.2
Pacific islands	6.9	6.3	8.4	9.9	8.7
Other	23.7	25.1	23.4	22.2	22.8
Country of origin					
Australia	4,412	4,189	4,518	4,751	5,980
New Zealand	9,057	7,814	8,418	8,718	9,959
United States	5,800	4,670	5,223	5,341	6,648
Pacific islands	1,909	1,541	2,238	2,746	2,854
Other	6,576	6,092	6,218	6,153	7,503
Arrivals on cruise ships 1/	4,522	3,796	6,311	5,737	3,751
Total arrivals 2/	32,276	28,102	32,926	33,446	36,695
(Percent change)	3.7	-12.9	17.2	1.6	9.7
Tourism receipts (in millions of pa'anga) 3/	15.6	15.5	14.2	11.6	16.5
Average expenditure per visitor (in pa'anga) 3/	564	639	533	419	501
(Percent change)	30.1	13.4	-16.6	-21.5	19.7
Memorandum item:					
Gross receipts (in millions of pa'anga) 4/	15.6	15.6	14.2	11.6	...

Sources: Data provided by the Tongan authorities; and Fund staff estimates.

1/ Including passengers and crew members.

2/ Sum of air passengers and cruise passengers.

3/ Data from Overseas Exchange Transaction (OET) records.

4/ Based on surveys by the Tonga Visitors' Bureau; figures may differ from the OET data.

Table 7. Tonga: Consumer Price Index, 1995/96-1999/00
(Annual average)

	Weights	1995/96	1996/97	1997/98	1998/99	1999/00
(November 1995=100)						
Total	100.00	101.2	103.2	106.4	110.5	116.4
Local component	45.81	102.5	104.4	112.5	119.1	118.3
Imported component	54.19	100.2	102.2	101.1	103.3	114.7
Food	43.18	102.5	107.7	112.6	120.9	121.2
Housing	6.37	101.3	101.6	103.3	105.4	114.4
Household goods	14.22	100.3	99.6	100.9	103.8	109.7
Clothing and footwear	4.17	99.9	99.3	100.1	100.3	107.5
Transportation	15.52	100.1	95.9	96.4	92.5	101.1
Beverages	5.35	100.5	103.3	108.4	107.6	134.3
Miscellaneous	11.19	100.1	103.2	106.7	111.8	122.5
(Percent change)						
Total	...	2.7	2.0	3.0	3.9	5.3
Local component	...	0.7	1.9	7.7	5.9	-0.7
Imported component	...	5.2	2.0	-1.0	2.1	11.1
Food	...	5.4	5.0	4.6	7.4	0.3
Housing	...	2.3	0.2	1.7	2.0	8.5
Household goods	...	-0.2	-0.7	1.3	2.9	5.7
Clothing and footwear	...	4.1	-0.6	0.8	0.2	7.2
Transportation	...	1.0	-4.2	0.5	-4.1	9.4
Beverages	...	3.0	2.7	5.0	-0.8	24.9
Miscellaneous	...	-2.4	3.1	3.4	4.8	9.6

Sources: Data provided by the Tongan authorities; and Fund staff estimates.

Table 8. Tonga: Population and Labor Market, 1993-99

(In persons, unless otherwise specified)

	1993	1994	1995	1996	1997	1998	1999
Total population	97,686	97,420	97,746	97,784	98,591	99,264	99,821
Male	49,080	48,976	49,138	49,615	50,037	50,406	50,731
Female	48,605	48,444	48,608	48,169	48,553	48,856	49,088
Labor force	36,665	...	...	33,908	...	...	...
Male	21,373	...	...	21,695	...	...	...
Female	15,292	...	...	12,213	...	...	...
Employed	32,326	...	...	29,406	...	...	...
Male	20,211	...	...	18,402	...	...	...
Female	12,115	...	...	11,004	...	...	...
Regularly paid employees	8,569	...	...	13,318	...	...	...
Full-time government workers	3,846	3,900	4,195	5,209	...	...	...
(In percent of regularly paid employees)	44.9	...	...	39.1	...	...	...
Participation rate	52.2	...	...	58.4	...	...	...
Male	61.8	...	...	...	...	...	...
Female	42.9	...	...	...	...	...	...
Unemployment rate	11.8	...	...	13.3	...	...	...

Sources: Data provided by the Tongan authorities; and Fund staff estimates.

Table 9. Tonga: Central Government Fiscal Operations, 1995/96-1999/00

	1995/96 1/	1996/97 1/	1997/98	Prel. 1998/99	Prel. 1999/00
(In millions of pa'anga)					
Total revenue and grants	66.4	66.1	66.6	63.3	72.1
Total revenue	62.0	62.1	63.0	62.1	69.6
Current revenue	62.0	62.1	63.0	62.1	69.6
Tax revenue	43.1	45.0	43.9	47.1	52.9
Nontax revenue	18.9	17.1	19.1	14.9	16.7
<i>Of which: Revolving funds</i>	2.9	3.3	3.6	1.9	3.0
Capital revenue	0.0	0.0	0.0	0.0	0.0
Grants (in cash)	4.4	4.0	3.5	1.3	2.5
Total expenditure and lending minus repayments	64.5	76.2	72.0	63.9	70.2
Total expenditure	64.5	76.2	74.3	66.6	71.9
Current expenditure	55.6	59.1	64.2	63.4	66.2
Capital expenditure	8.9	17.1	10.1	3.2	5.6
Total lending minus repayments	...	...	-2.3	-2.7	-1.7
Overall deficit/surplus	1.9	-10.1	-5.4	-0.6	1.9
Total financing 2/	-1.9	10.1	5.5	0.6	-2.0
External financing	0.1	-0.2	3.4	3.4	-1.4
Domestic bank financing	2.2	1.8	-0.4	-0.6	0.8
Tonga Trust Fund	0.3	1.1	5.3	0.3	1.9
Discrepancy	-4.5	7.4	-2.8	-2.5	-3.3
(In percent of GDP)					
Total revenue and grants	31.7	31.5	30.1	26.4	29.2
Total revenue	29.6	29.5	28.5	25.9	28.2
Current revenue	29.6	29.5	28.4	25.9	28.2
Tax revenue	20.5	21.4	19.8	19.6	21.4
Nontax revenue	9.0	8.1	8.6	6.2	6.7
<i>Of which: Revolving funds</i>	1.4	1.6	1.6	0.8	1.2
Capital revenue	0.0	0.0	0.0	0.0	0.0
Grants (in cash)	2.1	1.9	1.6	0.5	1.0
Total expenditure and lending minus repayments	30.7	36.3	32.5	26.6	28.4
Total expenditure	30.7	36.3	33.6	27.8	29.1
Current expenditure	26.5	28.1	29.0	26.4	26.8
Capital expenditure	4.2	8.1	4.6	1.3	2.3
Total lending minus repayments	...	...	-1.1	-1.1	-0.7
Overall deficit/surplus	0.9	-4.8	-2.5	-0.2	0.8
Total financing	-0.9	4.8	2.5	0.2	-0.8
External financing	0.0	-0.1	1.5	1.4	-0.5
Domestic bank financing	1.0	0.9	-0.2	-0.3	0.3
Tonga Trust Fund	0.1	0.5	2.4	0.1	0.8
Discrepancy	-2.2	3.5	-1.3	-1.1	-1.3
Memorandum items:					
Current balance excluding grants	3.1	1.4	-0.6	-0.6	1.4
Overall balance excluding grants	-1.2	-6.7	-4.1	-0.8	-0.2
Current expenditure	26.5	28.1	29.0	26.4	26.8
Total revenue	29.6	29.5	28.5	25.9	28.2
Effective import tariff (in percent)	32.6	39.2	26.3	33.5	34.3

Source: Data provided by the Tongan authorities.

1/ The data for 1995/96 and 1996/97 was originally provided in a non-GFS format, thus the lack of information for certain items.

2/ The Ministry of Finance does not compile financing data in a GFS format. The large discrepancies arise as the financing items comes from different sources (e.g., monetary statistics).

Table 10. Tonga: Central Government Revenue, 1995/96-1999/00

	1995/96 1/	1996/97 1/	1997/98	Prel. 1998/99	Prel. 1999/00
(In millions of pa'anga)					
Total revenue and grants	66.4	66.1	66.6	63.3	72.1
Total revenue	62.0	62.1	63.0	62.1	69.6
Current revenue	62.0	62.1	63.0	62.1	69.6
Tax revenue	43.1	45.0	43.9	47.1	52.9
Taxes on income profits and capital gains	9.2	9.9	9.0	10.7	10.4
Taxes on property	0.0	0.0	0.1	0.1	0.5
Domestic taxes on goods and services	6.6	6.2	6.5	6.4	7.5
Sales tax	6.1	5.9	4.8	5.0	6.0
Other taxes	0.5	0.3	1.6	1.4	1.5
Taxes on international trade and transactions	27.3	28.9	27.6	29.7	34.1
Customs duties	13.7	13.7	13.7	13.6	16.9
Other import charges	13.6	15.2	14.0	16.2	17.3
Other taxes	0.0	0.0	0.6	0.3	0.3
Nontax revenue	18.9	17.1	19.1	14.9	16.7
Entrepreneurial and property income	...	...	5.2	3.4	6.4
Administrative fees and charges	...	...	12.7	10.9	9.1
Of which: Revolving funds	2.9	3.3	3.6	1.9	3.0
Fines and forfeits	...	...	0.1	0.2	0.4
Other nontax revenue	...	...	1.0	0.4	0.8
Capital revenue	0.0	0.0	0.0	0.0	0.0
Grants (in cash)	4.4	4.0	3.5	1.3	2.5
From abroad	...	...	3.5	1.3	2.5
From other levels of national government	...	...	0.0	0.0	0.0
Memorandum item:					
Grants in-kind (not included above)	16.6	21.3	24.0	24.7	18.1
(In percent of GDP)					
Total revenue and grants	31.6	31.4	30.1	26.4	29.2
Total revenue	29.6	29.5	28.5	25.9	28.2
Current revenue	29.6	29.5	28.4	25.9	28.2
Tax revenue	20.5	21.4	19.8	19.6	21.4
Taxes on income profits and capital gains	4.4	4.7	4.1	4.5	4.2
Taxes on property	0.0	0.0	0.0	0.0	0.2
Domestic taxes on goods and services	3.1	2.9	2.9	2.7	3.0
Sales tax	2.9	2.8	2.2	2.1	2.4
Other taxes	0.2	0.1	0.7	0.6	0.6
Taxes on international trade and transactions	13.0	13.7	12.5	12.4	13.8
Customs duties	6.5	6.5	6.2	5.6	6.8
Other import charges	6.5	7.2	6.3	6.7	7.0
Other taxes	0.0	0.0	0.3	0.1	0.1
Nontax revenue	9.0	8.1	8.6	6.2	6.7
Entrepreneurial and property income	...	...	2.4	1.4	2.6
Administrative fees and charges	...	...	5.8	4.5	3.7
Of which: Revolving funds	1.4	1.6	1.6	0.8	1.2
Fines and forfeits	...	...	0.1	0.1	0.2
Other nontax revenue	...	...	0.5	0.2	0.3
Capital revenue	0.0	0.0	0.0	0.0	0.0
Grants (in cash)	2.1	1.9	1.6	0.5	1.0
From abroad	...	...	1.6	0.5	1.0
From other levels of national government	...	...	0.0	0.0	0.0
Memorandum item:					
Grants in-kind (not included above)	7.9	10.1	10.9	10.3	7.3

Source: Data provided by the Tongan authorities.

1/ The data for 1995/96 and 1996/97 was originally provided in a non-GFS format, thus the lack of information for certain items.

Table 11. Tonga: Central Government Expenditure by Economic Classification, 1995/96-1999/00

	1995/96 1/	1996/97 1/	1997/98	Prel. 1998/99	Prel. 1999/00
(In millions of pa'anga)					
Total expenditure and lending minus repayments	64.5	76.2	72.0	63.9	70.2
Total expenditure	64.5	76.2	74.3	66.6	71.9
Current expenditure	55.6	59.1	64.2	63.4	66.2
Wages and salaries	28.8	31.1	33.0	35.4	35.3
Employer contributions	0.0	0.0	0.0	0.0	1.3
Other purchases of goods and services	12.5	20.5	23.0	19.5	21.9
Interest payments	1.0	1.4	2.2	2.3	1.1
Subsidies and other current transfers	13.3	6.1	5.9	6.2	6.7
Subsidies to non financial public enterprises	...	...	0.0	0.0	0.0
Subsidies to financial institutions	...	...	0.8	0.8	0.8
Transfers to non profit institutions	...	...	2.4	2.1	2.4
Transfers to households	...	...	2.3	2.5	3.4
Transfers abroad	...	...	0.5	0.8	0.1
Capital expenditure	8.9	17.1	10.1	3.2	5.6
Acquisition of fixed capital assets	...	...	8.7	2.3	4.2
Purchases of land and intangible assets	...	...	0.5	0.2	0.9
Capital transfers	...	...	0.9	0.6	0.5
Lending minus repayments	...	...	-2.3	-2.7	-1.7
Domestic	...	...	-2.3	-2.7	-1.7
To non financial public enterprises	...	...	-1.2	-0.6	-1.7
To financial institutions	...	...	-1.1	-2.1	0.0
Other domestic lending minus repayments	...	...	0.0	0.0	0.0
Abroad	...	...	0.0	0.0	0.0
(In percent of GDP)					
Total expenditure and lending minus repayments	30.7	36.3	32.5	26.6	28.4
Total expenditure	30.7	36.3	33.6	27.8	29.1
Current expenditure	26.5	28.1	29.0	26.4	26.8
Wages and salaries	13.7	14.8	14.9	14.8	14.3
Employer contributions	0.0	0.0	0.0	0.0	0.5
Other purchases of goods and services	6.0	9.8	10.4	8.1	8.9
Interest payments	0.5	0.7	1.0	1.0	0.4
Subsidies and other current transfers	6.3	2.9	2.7	2.6	2.7
Subsidies to non financial public enterprises	...	...	0.0	0.0	0.0
Subsidies to financial institutions	...	...	0.3	0.4	0.3
Transfers to non profit institutions	...	...	1.1	0.9	1.0
Transfers to households	...	...	1.0	1.0	1.4
Transfers abroad	...	...	0.2	0.3	0.0
Capital expenditure	4.2	8.1	4.6	1.3	2.3
Acquisition of fixed capital assets	...	...	3.9	1.0	1.7
Purchases of land and intangible assets	...	...	0.2	0.1	0.4
Capital transfers	...	...	0.4	0.3	0.2
Lending minus repayments	...	...	-1.1	-1.1	-0.7
Domestic	...	...	-1.1	-1.1	-0.7
To non financial public enterprises	...	...	-0.5	-0.3	-0.7
To financial institutions	...	...	-0.5	-0.9	0.0
Other domestic lending minus repayments	...	...	0.0	0.0	0.0
Abroad	...	...	0.0	0.0	0.0

Source: Data provided by the Tongan authorities.

1/ The data for 1995/96 and 1996/97 was originally provided in a non-GFS format, thus the lack of information for certain items.

Table 12. Tonga: Central Government Current Expenditure
by Functional Classification, 1995/96-1999/00

	1995/96	1996/97	1997/98	Prel. 1998/99	Prel. 1999/00
	(In millions of pa'anga)				
Total current expenditure	55.6	59.1	64.2	63.4	66.2
General public services	15.0	13.3	12.9	13.9	12.9
Defense affairs and services	3.2	3.4	3.9	3.4	3.3
Public order and safety affairs	4.2	4.4	4.6	4.9	4.6
Education affairs and services	9.9	12.1	11.9	11.5	10.9
Health affairs and services	7.2	7.7	7.4	8.2	7.8
Social security and welfare affairs and services	1.5	1.6	2.2	2.0	5.3
Agriculture, forestry, fishing, and hunting affairs and services	4.2	4.6	5.1	5.4	5.3
Transportation and communication affairs and services	2.5	2.7	2.8	2.8	2.0
Other (tourism, public works, miscellaneous)	7.8	9.4	13.4	11.3	14.2
	(In percent of GDP)				
Total current expenditure	26.5	28.1	29.0	26.4	26.8
General public services	7.2	6.3	5.8	5.8	5.2
Defense affairs and services	1.5	1.6	1.8	1.4	1.3
Public order and safety affairs	2.0	2.1	2.1	2.0	1.9
Education affairs and services	4.7	5.7	5.4	4.8	4.4
Health affairs and services	3.4	3.7	3.3	3.4	3.1
Social security and welfare affairs and services	0.7	0.8	1.0	0.8	2.1
Agriculture, forestry, fishing, and hunting affairs and services	2.0	2.2	2.3	2.3	2.2
Transportation and communication affairs and services	1.2	1.3	1.3	1.2	0.8
Other (tourism, public works, miscellaneous)	3.7	4.5	6.0	4.7	5.8

Source: Data provided by the Tongan authorities.

Table 13. Tonga: Development Expenditure by Function and Sources of Funding, 1995/96-1999/00 1/

	1995/96	1996/97	1997/98	Prel. 1998/99	Prel. 1999/00
(In millions of pa'anga)					
Total development expenditure	13.8	12.4	17.1	4.7	7.4
General public services	2.9	3.1	4.6	1.2	1.4
Defense affairs and services	0.0	0.0	1.3	0.0	0.0
Public order and safety affairs	0.1	1.0	0.0	0.0	0.0
Education affairs and services	0.6	0.6	2.5	0.2	0.1
Health affairs and services	0.2	0.2	1.1	0.1	0.5
Social security and welfare affairs and services	0.2	0.0	0.0	0.0	0.0
Agriculture, forestry, fishing, and hunting affairs and services	1.4	1.7	2.0	1.4	3.5
Transportation and communication affairs and services affairs and services	2.4	0.1	0.3	0.3	0.0
Other (tourism, public works, miscellaneous)	6.0	5.7	5.3	1.5	2.0
Sources of funding	13.8	12.4	17.1	4.7	7.4
Grants in cash	4.4	4.0	3.5	1.3	2.5
Tonga Trust Fund	1.4	1.1	5.3	0.3	1.9
External loans	2.3	2.0	1.4	1.3	0.0
Revolving funds	2.9	3.3	3.6	1.9	3.0
Miscellaneous	2.8	2.0	3.2	0.0	0.0
Memorandum items:					
Total development expenditure less revolving funds	10.9	9.2	13.5	2.8	4.4
Total capital expenditure	8.9	17.1	10.1	3.2	5.6
(In percent of GDP)					
Total development expenditure	6.6	5.9	7.7	2.0	3.0
Total development expenditure less revolving funds	5.2	4.4	6.1	1.2	1.8
Total capital expenditure	4.2	8.1	4.6	1.3	2.3

Source: Data provided by the Tongan authorities.

1/ "Development expenditure" is not synonymous with "capital expenditure" and it includes a number of items that are classified (according to the GFS format) under "current expenditure."

Table 14. Tonga: National Debt Outstanding, 1995/96-1999/00

	1995/96	1996/97	1997/98	1998/99	Est. 1999/00
(In millions of pa'anga; end of period)					
Total debt	91.5	91.5	104.9	118.9	119.4
Total domestic debt	14.9	15.2	15.4	12.9	14.3
Bank loans	0.0	1.3	2.5	2.5	0.0
Bonds on issue	14.9	13.9	12.9	10.4	14.3
Total external debt 1/	76.6	76.3	89.5	106.0	105.1
Bilateral	17.3	13.5	13.3	14.7	15.4
France	0.0	0.0	0.0	1.0	1.6
Germany	16.2	12.6	12.5	12.5	13.5
United Kingdom	1.1	0.9	0.7	1.2	0.3
Multilateral	52.1	56.4	70.7	81.0	85.7
Asian Development Bank	32.4	37.8	49.4	56.0	61.4
European Investment Bank	6.7	5.5	6.2	8.9	7.6
International Development Association	5.6	5.5	6.3	6.8	6.7
International Fund for Agricultural Development	7.4	7.6	8.7	9.3	10.0
Commercial loans	7.2	6.4	5.6	10.3	4.0
(In millions of U.S. dollars; end of period)					
Total debt	73.8	73.3	71.9	75.2	70.7
Total domestic debt	11.7	12.3	12.3	8.6	8.5
Total external debt 1/	62.2	61.0	59.6	66.6	62.2
(In percent of GDP; end of period)					
Total debt	44.2	42.8	43.8	49.6	46.9
Total domestic debt	7.0	7.2	7.5	5.7	5.6
Total external debt 1/	37.2	35.6	36.3	43.9	41.3
(In millions of pa'anga; end of period)					
Memorandum items:					
Government loans outstanding	27.1	25.9	25.1	...	...
Tonga Trust Fund, closing balance	28.9	30.6	33.5	...	...
NRBT external reserves	29.8	32.8	21.3	34.1	26.2

Source: Data provided by the Tongan authorities.

1/ Comprises government and government-guaranteed debt.

Table 15. Tonga: Tonga Trust Fund, 1995/96-1999/00 1/
(In millions of pa'anga)

	1995/96	1996/97	1997/98	1998/99	1999/00
Opening balance	31.4	28.9	30.6	33.5	...
Proceeds	2.2	3.4	4.5	...	...
Local collections and other	0.0	0.5	0.3	...	...
Overseas collections and interest earned	2.2	2.4	2.8	...	...
Tongasat	...	0.5	1.4	...	...
Drawdowns	3.8	1.6	5.2	...	...
Expenditures	0.0	0.0	0.0	...	...
Advances to government of Tonga	3.8	1.6	5.2	0.3	1.9
Revaluation adjustment	-0.9	-0.1	3.6	...	...
Closing balance	28.9	30.6	33.5	...	...
Invested overseas	26.8	29.4	32.3	...	...
Deposited in Tonga	2.1	1.1	1.2	...	...

Source: Data provided by the Tongan authorities.

1/ The latest published financial statements for the Tonga Trust Fund are for fiscal year 1997/98.

Table 16. Tonga: Public Enterprise Sector

(As of June 30, 1998)

Organization	Shares (number)	Face Value (pa'anga)	Ownership (percent)
Air Pacific Limited	70,400	62,174	n.a.
Bank of Tonga	120,000	1,200,000	40
Coastal Biological Services	40,000	40,000	100
Charity Foundation	14,999	14,999	99
Coconut Oil 1/	99	99	99
Export Produce Treatment Services Limited	40,000	40,000	20
Frisco Hardware Limited 1/	99	99	99
Home Gas 1/	99	99	99
International Dateline Hotel	5,999,999	5,999,999	99
International Finance Corporation	19	19,000	n.a.
Kintail Honey Tonga Limited	4,000	4,000	27
Leiola Duty Free	600,000	600,000	99
National Reserve Bank of Tonga	...	...	100
Pacific Forum Line Limited	1,271,956	775,583	n.a.
Primary Produce Export Limited 1/	99	99	99
Palm Soaps Limited 1/	99	99	99
Pacific Warehouse Company Limited	99	99	99
Royal Beer	250,000	250,000	n.a.
Royal Tongan Airlines	6,200,000	6,200,000	100
Shipping Corporation of Polynesia Limited	6,000	6,000	60
Small Industries Centre	...	...	n.a.
Sea Star Fishing Company Limited	30,000	1,500,000	63
Tonga Broadcasting Commission	...	...	100
Tonga Chronicle	...	...	n.a.
Tonga Development Bank	943,929	9,439,290	100
Tonga Dairy Processing Company Limited	254,000	254,000	51
Tonga Electric Power Board	...	...	100
Tonga Investment Limited	400,100	400,100	99
Talamahu Market Limited	...	...	100
Tonga National Shipping Line Limited	900,000	900,000	90
Tonga Oil Company Limited	4,999,999	4,999,999	99
Tonga Ports Authority	...	...	100
Tonga Ship Building Company Limited	240,000	240,000	n.a.
Tonga Timber Limited	99,000	99,000	99
Tonga Telecommunications Commission	...	...	100
Tonga Telecommunications International Limited	6,147,995	6,147,995	99
Tonga Water Board	...	...	100
Total	...	39,192,733	...

Source: Data provided by the Tongan authorities.

1/ These companies are owned by the government through Tonga Investment Limited.

Table 17. Tonga: Monetary Survey, 1995/96-1999/00

	1995/96	1996/97	1997/98	1998/99	1999/00
(In millions of pa'anga; end of period)					
Net foreign assets	29.8	33.0	16.4	34.4	25.1
Gross international reserves	30.8	37.8	26.0	39.7	30.2
Foreign liabilities	-1.0	-4.9	-9.7	-5.3	-5.1
Net domestic assets	37.0	43.2	61.6	55.3	72.2
Domestic credit	60.9	69.8	84.4	85.0	93.5
Central government (net)	0.6	2.4	2.0	0.7	1.8
Public enterprises	0.1	0.4	0.6	1.5	2.3
Private sector	58.6	65.3	79.1	80.8	86.5
Nonmonetary financial institutions	1.6	1.8	2.7	2.0	3.0
Other items (net)	-23.9	-26.6	-22.7	-29.7	-21.3
Broad money (M2)	66.8	76.2	78.0	89.7	97.3
Narrow money	20.4	20.9	21.3	24.7	27.9
Quasi-money	46.3	55.3	56.7	65.0	69.4
(Percent change)					
Net foreign assets	-5.7	10.8	-50.4	110.2	-27.1
Domestic credit	11.6	14.7	20.8	0.8	10.0
Private sector	9.5	11.5	21.1	2.2	7.0
Broad money	2.7	14.1	2.4	15.0	8.4
(Percent contribution to change in M2)					
Net foreign assets	-2.8	4.8	-21.8	23.1	-10.4
Net domestic assets	5.5	9.3	24.2	-8.1	18.8
Domestic credit	9.7	13.4	19.1	0.8	9.5
Private sector	7.8	10.1	18.1	2.2	6.3
Other items (net)	-4.3	-4.1	5.1	-8.9	9.3
Memorandum items:					
Velocity (GDP/average stock of M2)	3.2	2.9	2.9	2.9	2.6
Nominal GDP (in millions of pa'anga)	209.8	210.2	221.4	240.0	247.2
Average stock of M2 (in millions of pa'anga)	65.9	71.5	77.1	83.8	93.5

Source: National Reserve Bank of Tonga.

Table 18. Tonga: Banking Survey, 1995/96-1999/00 1/

	1995/96	1996/97	1997/98	1998/99	1999/00
(In millions of pa'anga; end of period)					
Net foreign assets	25.3	29.0	13.0	30.9	21.2
Net international reserves	29.8	33.0	16.4	34.4	25.1
Other foreign assets (net)	-4.5	-4.0	-3.4	-3.5	-3.8
Net domestic assets	38.6	44.4	62.8	53.0	73.5
Domestic credit	99.3	109.0	125.3	118.1	124.7
Central government (net) 2/	-1.0	0.5	0.1	-0.5	0.3
Public enterprises	3.4	2.9	1.8	2.4	3.4
Private sector	96.9	105.7	123.4	116.3	121.0
Other items (net)	-60.7	-64.7	-62.5	-65.1	-51.2
Liquid liabilities	63.9	73.3	75.8	83.9	94.7
Narrow money	20.4	20.9	21.3	24.7	27.9
Quasi-money	49.4	57.6	59.6	71.7	73.3
Less: Reserves of TDB	-2.9	-2.6	-2.6	-6.3	-3.2
(Percent change)					
Net foreign assets	-4.6	14.7	-55.2	138.1	-31.2
Domestic credit	8.2	9.8	14.9	-5.7	5.6
<i>Of which</i> : Private sector	9.0	9.1	16.8	-5.8	4.0
Liquid liabilities	6.8	14.8	3.3	10.7	12.9
(Percent contribution to change in liquid liabilities)					
Net foreign assets	-2.0	5.8	-21.8	23.6	-11.5
Net domestic assets	8.8	9.0	25.1	-12.9	24.4
Domestic credit	12.6	15.2	22.2	-9.5	7.8
<i>Of which</i> : Private sector	13.4	13.8	24.2	-9.4	5.6
Other items (net)	-3.8	-6.2	3.0	-3.4	16.5

Source: National Reserve Bank of Tonga.

1/ Includes the National Reserve Bank of Tonga, commercial banks, and the Tonga Development Bank.

2/ Excludes government onlending from foreign sources to the TDB.

Table 19. Tonga: Accounts of the National Reserve Bank of Tonga, 1995/96-1999/00

(In millions of pa'anga; end of period)

	1995/96	1996/97	1997/98	1998/99	1999/00
Net foreign assets	29.6	32.6	20.9	33.7	25.8
Foreign assets	29.8	32.8	21.3	34.1	26.2
Foreign liabilities	-0.2	-0.2	-0.4	-0.5	-0.5
Net domestic assets	-8.1	-11.8	-1.0	-11.8	-0.1
Domestic credit	4.2	5.0	2.7	-0.1	0.2
Claims on central government (net)	4.2	5.0	2.7	-0.1	0.2
Claims on central government	5.5	5.4	5.4	5.5	5.4
Deposits from central government	-1.3	-0.4	-2.8	-5.6	-5.2
Claims on financial institutions	0.0	0.0	0.0	0.0	0.0
Other items, net	-12.3	-16.9	-3.7	-11.7	-0.3
NRBT notes	-21.6	-26.5	-13.5	-20.2	-9.3
Capital and reserves	-3.0	-2.5	-1.7	-1.1	-1.0
Reserve money	21.4	20.8	19.9	21.9	25.7
Currency issued	8.2	8.2	8.2	9.3	10.2
Banks' deposits at NRBT	13.3	12.6	11.6	12.6	15.4
<i>Of which</i> : Required reserves	7.9	8.6	9.1	11.6	12.5
Memorandum items:					
Money multiplier 1/					
Narrow money	1.0	1.0	1.1	1.1	1.1
Broad money	3.1	3.7	3.9	4.1	3.8

Source: National Reserve Bank of Tonga.

1/ Defined as money supply divided by reserve money.

Table 20. Tonga: Consolidated Accounts of Deposit Money Banks, 1995/96-1999/00

(In millions of pa'anga; end of period)

	1995/96	1996/97	1997/98	1998/99	1999/00
Net foreign assets	0.2	0.4	-4.5	0.7	-0.7
Foreign assets	1.0	5.0	4.7	5.5	3.9
Foreign liabilities	-0.8	-4.7	-9.3	-4.8	-4.7
Net domestic assets	64.7	73.7	80.4	88.5	95.5
Domestic credit	56.7	64.8	81.7	85.1	93.4
Claims on central government (net)	-1.4	-1.5	0.5	2.1	3.9
Claims on central government	9.1	10.2	10.5	9.7	9.6
Deposits from central government	-10.5	-11.6	-10.0	-7.5	-5.7
Claims on public enterprises	0.1	0.4	0.6	1.5	2.3
Claims on private sector	58.6	65.3	79.1	80.8	86.5
Claims on nonmonetary financial institutions	1.6	1.8	2.7	2.0	3.0
Other items, net	8.0	8.9	-1.3	3.4	2.1
Banks' reserves	34.5	39.3	26.5	34.4	25.7
Cash in vault	1.3	1.9	2.2	1.9	2.1
Deposits at NRBT	13.3	12.6	11.6	12.6	15.4
NRBT notes	20.0	24.8	12.7	19.8	8.1
Capital and reserves	-32.3	-33.0	-32.0	-32.2	-27.6
Total deposits	62.8	72.8	74.8	88.6	92.5
Demand deposits	14.8	20.4	19.4	22.5	24.1
Savings deposits	20.8	20.8	22.3	24.0	24.6
Time deposits	27.1	31.6	33.2	42.1	43.8

Source: National Reserve Bank of Tonga.

Table 21. Tonga: Bank Credit by Sector, 1995/96-1999/00

	1995/96	1996/97	1997/98	1998/99	1999/00
(In millions of pa'anga; end of period)					
Commercial banks					
Central government 1/	0.0	1.5	2.6	2.6	0.5
Public enterprises	0.1	0.4	0.6	1.5	2.3
Private sector	58.5	66.2	79.0	80.7	86.4
Agriculture	4.7	3.6	2.7	2.7	4.8
Industry and trade	20.4	19.1	28.1	30.5	37.1
Housing	21.1	27.3	32.5	31.7	28.4
Personal	11.9	14.5	15.3	15.3	13.6
Other	0.4	0.5	0.4	0.5	2.4
Total	58.6	68.1	82.2	84.8	89.2
(Percent change)					
Private sector	9.5	13.1	19.4	2.2	7.0
Agriculture	6.8	-24.1	-24.1	-0.6	78.2
Industry and trade	12.0	-6.4	47.1	8.5	21.6
Housing	6.5	29.5	19.1	-2.3	-10.5
Personal	11.8	21.8	5.1	0.2	-11.0
Other	16.9	40.9	-15.4	12.9	406.0
(In millions of pa'anga; end of period)					
Tonga Development Bank					
Central government	2.0	1.7	1.7	1.7	2.0
Public enterprises	3.3	2.5	1.2	0.9	1.1
Private sector	34.1	34.7	35.1	27.5	23.9
Agriculture	18.8	17.8	19.4	14.7	13.0
Industry and trade	15.3	16.9	15.7	12.8	10.9
Total	39.4	38.9	38.0	30.1	27.0
(Percent change)					
Private sector	3.0	1.7	1.1	-21.7	-13.2
Agriculture	7.2	-5.0	8.8	-24.4	-11.6
Industry and trade	-1.7	9.9	-7.0	-18.4	-14.9

Source: National Reserve Bank of Tonga.

1/ Excludes holdings of government securities.

Table 22. Tonga: Accounts of the Tonga Development Bank, 1995/96-1999/00

(In millions of pa'anga; end of period)

	1995/96	1996/97	1997/98	1998/99	1999/00
Reserves	2.9	2.6	2.6	6.3	3.2
Net domestic assets	44.1	49.6	52.2	46.1	43.2
Domestic credit	40.2	44.4	47.0	37.8	37.4
Claims on central government	2.0	1.7	1.7	1.7	2.0
Claims on public enterprises	3.3	2.5	1.2	0.9	1.1
Claims on private sector	34.9	40.3	44.0	35.2	34.3
Other items, net	3.9	5.2	5.2	8.3	5.8
Total assets = Total liabilities plus capital	47.0	52.2	54.7	52.4	46.4
Long-term foreign liabilities 1/	4.5	4.0	3.4	3.5	3.8
Government-lending funds 2/	17.5	17.8	17.4	13.9	14.8
TDB bonds and notes	6.7	8.1	9.9	10.3	11.6
Borrowing from Bank of Tonga	0.0	0.0	0.5	0.0	0.0
Borrowing from NRBT	0.0	0.0	0.0	0.0	0.0
Capital and reserves	20.7	22.1	23.2	24.4	16.1

Source: National Reserve Bank of Tonga.

1/ Direct borrowing by the Tonga Development Bank from foreign sources.

2/ Borrowing by the government from foreign sources for on-lending to the Tonga Development Bank.

Table 23. Tonga: Interest Rate Structure, 1995/96-1999/00

(In percent per annum; end of period)

	1995/96	1996/97	1997/98	1998/99	1999/00
National Reserve Bank of Tonga					
Minimum lending rate 1/	7.0	7.0	7.0	9.0	9.0
NRBT notes (3-month) 2/	5.5	5.5	5.5	...	...
NRBT notes (1-month) 2/	3.5	3.5	3.5	3.5	3.5
Commercial bank deposits					
Savings deposits	4.3	4.2	4.2	3.6	3.9
Time deposits 3/					
3 months	5.0	4.8	5.3	5.0	4.9
6 months	5.6	5.4	5.7	5.4	5.3
12 months	6.3	6.0	6.2	5.8	5.8
24 months	6.8	6.5	6.6	6.3	6.2
36 months	7.3	7.0	6.8	6.3	6.3
48 months	7.5	7.3	7.3	7.1	7.3
Average rate on all savings and time deposits	5.1	5.0	5.1	4.7	4.8
Commercial bank loans					
Base rate 4/	9.0	9.0	9.0	9.0	9.0
Personal loans for housing	10.0	10.0	10.0	10.0	10.0
Tonga Development Bank loans					
Small-scale subsistence 5/	9.5	9.5	9.5	10.5	10.5
High priority loans 6/	8.5	8.5	8.5	10.5	10.5
Maximum rate	12.0	12.0	12.0	14.5	16.5
Memorandum items:					
Real interest rate 7/	2.4	3.0	2.1	0.8	-0.5
Nominal interest rate differential 8/	-2.4	-0.8	0.4	0.3	-1.0
Spread between lending and deposit rate 9/	4.9	5.0	4.9	5.3	5.2
Reserve requirement 10/	10.0	10.0	10.0	12.0	12.0

Sources: Data provided by the Tongan authorities; and Fund staff estimates.

1/ Minimum lending rate was raised to 5.4 percent in June 1995 to 7 percent in December 1995, and to 9 percent in September 1998. It was raised further to 12 percent in July 2000.

2/ The NRBT notes were introduced in April 1993. Prior to that, the NRBT had long-term deposits from the BOT.

3/ Prior to September 1992, for deposits greater than T\$100,000. After September 1992, interest rates are set on customer basis.

4/ Base rate is the lowest rate charged. Prior to December 1992, it was the preferential rate.

5/ For loans to export-oriented industries, manufacturing and raw materials processing, and tourism activities except restaurants.

6/ Loans less than T\$1,000 for activity in agriculture, fisheries, and livestock.

7/ Average rate for savings and time deposits minus average CPI.

8/ Difference between 3-month deposit rate in Tonga and rate on 3-month Australian treasury bills.

9/ Based on lending rate for personal homes and average rate on savings and deposit rate.

10/ Statutory reserve requirements (introduced March 1993) were 5 percent and raised to 10 percent in December 1995, and to 12 percent in September 1998. They are not remunerated.

Table 24. Tonga: Balance of Payments Summary, 1995/96-1999/00 1/

(In millions of U.S. dollars)

	1995/96	1996/97	1997/98	1998/99	Est. 1999/00
Trade balance	-53.8	-47.0	-66.2	-44.0	-51.6
Exports, f.o.b.	12.7	13.2	11.9	12.1	10.9
Imports, f.o.b.	-66.5	-60.2	-78.1	-56.1	-62.6
Services (net)	6.3	6.6	6.9	4.9	1.9
Receipts	24.9	31.2	27.8	19.2	18.3
<i>Of which</i> : Travel receipts	12.5	12.7	10.5	8.3	10.1
Payments	-18.5	-24.6	-21.0	-14.3	-16.4
Income (net)	0.7	1.5	1.7	2.9	-0.8
Current transfers (net)	36.2	37.3	39.4	36.1	40.5
Official transfers (net)	-0.1	0.5	0.6	1.4	1.2
Private transfers (net)	36.2	36.8	38.8	34.8	40.4
Current account balance	-10.7	-1.6	-18.2	-0.1	-10.0
(Percent of GDP)	-6.4	-0.9	-11.1	0.0	-6.7
Capital account balance	8.5	5.9	7.1	8.8	2.6
Official capital flows (net)	8.8	5.1	6.7	4.1	3.1
Private capital flows (net)	-0.3	0.9	0.4	4.6	-0.6
Errors and omissions	3.0	-2.3	-1.0	-1.5	1.6
Overall balance	0.9	2.1	-12.2	7.2	-5.9
Memorandum items:					
Gross international reserves	24.2	26.2	14.2	21.4	15.5
In months of following year's imports of goods and services	3.4	3.2	2.4	3.3	2.4
Exchange rate					
Pa'anga per US\$ (period average)	1.26	1.23	1.35	1.58	1.64
Pa'anga per US\$ (end-period)	1.23	1.25	1.50	1.59	1.69

Sources: Data provided by the Tongan authorities; and Fund staff estimates.

1/ Based mainly on Overseas Exchange Transaction (OET) records.

Table 25. Tonga: Exports by Major Commodity, 1995/96-1999/00 1/

	1995/96	1996/97	1997/98	1998/99	Q1-Q3 1999/00
Squash					
Value (US\$ million)	6.7	5.3	4.5	2.7	5.5 2/
Volume (metric tonnes)	8,699	12,309	11,898	7,228	15,305
Unit value (US\$/tonne)	768	433	377	379	357
Fish					
Value (US\$ million)	3.3	1.7	2.4	1.8	4.1
Volume (metric tonnes)	637	375	762	514	785
Unit value (US\$/tonne)	5,197	4,614	3,178	3,585	5,235
Root crops					
Value (US\$ million)	0.8	1.0	0.4	0.2	0.5
Volume (metric tonnes)	1,507	2,356	1,309	514	1,739
Unit value (US\$/tonne)	522	416	298	339	286
Vanilla					
Value (US\$ million)	1.7	0.7	0.2	0.5	0.5
Volume (metric tonnes)	41	10	13	44	25
Unit value (US\$/kilogram)	42	65	12	11	19
Copra					
Value (US\$ million)	0.0	0.2	0.0	0.1	...
Volume (metric tonnes)	20.0	817.2	313.0	107.0	...
Unit value (US\$/tonne)	167.2	206.9	75.1	796.1	...
Manufactured goods (US\$ million)	1.0	1.0	0.4	0.4	0.8
Total (US\$ million) 3/	13.5	9.9	7.9	5.8	11.3
Memorandum item:					
Export unit value (1995/96 = 100)	100.0	80.6	51.8	54.9	62.7

Source: Data provided by the Tongan authorities.

1/ Customs data on f.o.b. basis.

2/ Customs data may be overestimated by about T\$2 million.

3/ Includes reexports, but excludes some agricultural products. Data may also differ from Overseas Exchange Transaction (OET) records due to the timing of shipment and foreign exchange receipts.

Table 26. Tonga: Imports by Commodity, Category, and Sector, 1995/96-1999/00 1/

(In millions of U.S. dollars)

	1995/96	1996/97	1997/98	1998/99	Q1-Q3 1999/00
Total imports	75.6	73.4	74.8	66.3	54.3
By commodity group					
Food, live animals, beverages, etc.	21.7	23.8	22.5	21.1	17.4
Crude materials, inedible	4.1	3.1	3.8	3.6	2.7
Fuels, lubricants, oils, and fats	10.3	10.9	8.0	7.9	8.0
Chemicals	5.2	5.3	5.8	5.2	3.9
Manufactured goods and materials	12.8	11.6	12.5	11.6	9.4
Machinery and transportation equipment	15.5	12.7	16.2	11.2	8.5
Miscellaneous manufactured goods	5.8	5.8	5.8	5.4	4.2
Other	0.2	0.3	0.2	0.4	0.2
By economic category					
Consumer goods	28.8	29.7	29.0	26.8	22.0
Intermediate goods	33.5	31.0	32.3	29.0	23.8
Capital goods	9.0	6.3	10.5	7.0	4.8
Unclassified	4.4	6.5	3.0	3.5	3.8
By institutional sector					
Government	11.2	7.9	8.5	8.6	5.4
Quasi-government	6.1	3.6	5.0	3.6	1.8
Private	58.4	61.9	61.3	54.1	47.1
Memorandum item:					
Import unit value (1995/96 = 100)	100.0	98.5	90.4	82.6	84.6

Source: Data provided by the Tongan authorities.

1/ Values are on c.i.f. basis derived from customs data.

Table 27. Tonga: Direction of Trade, 1995/96-1999/00

(In percent of total)

	1995/96	1996/97	1997/98	1998/99	Q1-Q3 1999/00
Exports					
Australia	5.1	5.6	4.2	3.4	2.6
New Zealand	9.5	15.2	10.1	14.0	7.6
Japan	49.0	45.8	49.8	40.9	61.8
United States	27.1	21.7	8.9	17.6	18.5
Fiji	1.9	5.8	4.1	6.2	1.4
Other	7.3	5.9	22.9	17.9	8.1
Total	100.0	100.0	100.0	100.0	100.0
Imports					
Australia	28.9	31.7	27.5	28.6	23.0
New Zealand	7.2	8.2	7.8	8.6	14.7
Japan	8.0	6.1	5.0	4.9	6.1
United States	36.1	35.6	34.9	35.0	35.2
Fiji	11.5	11.4	18.0	13.1	12.7
Other	8.3	6.9	6.7	9.8	8.3
Total	100.0	100.0	100.0	100.0	100.0

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Source: Data provided by the Tongan authorities.

Table 28. Tonga: Services, Income, and Transfers, 1995/96-1999/00

(In millions of U.S. dollars)

	1995/96	1996/97	1997/98	1998/99	Est. 1999/00
Services, net	6.3	6.6	6.9	4.9	1.9
Receipts	24.9	31.2	27.8	19.2	18.3
Travel	12.5	12.7	10.5	8.3	10.1
Payments	-18.5	-24.6	-21.0	-14.3	-16.4
Income, net	0.7	1.5	1.7	2.9	-0.8
Receipts	3.8	2.6	4.8	4.0	1.9
Payments	-3.1	-1.1	-3.0	-1.1	-2.6
Official transfers, net	-0.1	0.5	0.6	1.4	1.2
Receipts	0.8	1.3	1.2	2.1	1.5
Payments	-0.9	-0.9	-0.7	-0.8	-0.4
Private transfers, net	36.2	36.8	38.8	34.8	40.4
Receipts	44.9	44.4	44.2	39.9	48.0
Payments	-8.6	-7.5	-5.4	-5.1	-7.6
Total services, income, and transfers	43.2	45.4	48.0	44.0	42.7

Sources: Data provided by the Tongan authorities; and Fund staff estimates.

Table 29. Tonga: Disbursements of Official External Loans and Grants, 1995/96-1999/00 1/

(In millions of U.S. dollars)

	1995/96	1996/97	1997/98	1998/99	Prel. 1999/00
Total loan disbursements	6.1	5.2	4.3	4.1	0.7
<i>Of which:</i>					
Multilateral					
Asian Development Bank	4.3	4.9	4.3	3.5	0.0
European Investment Bank	0.0	0.0	0.0	0.0	0.0
International Development Association	0.0	0.0	0.0	0.0	0.0
International Fund for Agricultural Development	0.9	0.3	0.0	0.0	0.0
Total grants 2/	3.5	17.1	19.7	16.4	14.6
Grants-in-kind	...	15.3	17.8	15.6	11.0
Grants-in-cash	3.5	1.8	1.9	0.8	3.5
<i>Of which:</i>					
Bilateral grants	2.6	1.5	1.9	0.7	2.0
Australia	2.1	1.2	1.2	0.6	1.3
Canada	0.0	0.0	0.0	0.0	0.1
France	0.0	0.0	0.0	0.0	0.0
Germany	0.0	0.0	0.0	0.0	0.0
Japan	0.0	0.0	0.1	0.0	0.1
Netherlands	0.0	0.0	0.0	0.0	0.0
New Zealand	0.4	0.3	0.6	0.1	0.4
People's Republic of China	0.0	0.0	0.0	0.0	0.0
United Kingdom	0.0	0.0	0.0	0.0	0.1
United States	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Multilateral grants	0.9	0.3	0.0	0.1	1.5
Commonwealth Fund for Technical Cooperation	0.0	0.1	0.0	0.0	0.0
EU	0.8	0.1	0.0	0.0	0.8
UN agencies	0.0	0.0	0.0	0.0	0.2
Others	0.0	0.1	0.0	0.1	0.5
Total foreign assistance	9.5	22.4	24.0	20.4	15.2

Sources: Data provided by the Tongan authorities; and Fund staff estimates.

1/ Comprises government and government-guaranteed debt.

2/ Data for 1995/96 excludes "grants-in-kind."

Table 30. Tonga: External Debt and Debt Service, 1995/96-1999/00 1/

(In millions of U.S. dollars)

	1995/96	1996/97	1997/98	1998/99	Prel. 1999/00
Total external debt	62.2	61.0	59.6	66.6	62.2
<i>Of which:</i>					
Bilateral	14.0	10.8	8.8	9.2	9.1
France	0.0	0.0	0.0	0.6	0.9
United Kingdom	0.9	0.7	0.5	0.8	8.0
Germany	13.2	10.1	8.3	7.8	0.2
Multilateral	42.3	45.1	47.1	50.9	50.7
Asian Development Bank	26.3	30.3	32.9	35.2	36.4
European Investment Bank	5.4	4.4	4.2	5.6	4.5
International Development Association	4.6	4.4	4.2	4.3	4.0
International Fund for Agricultural Development	6.0	6.1	5.8	5.8	5.9
Debt service	4.8	4.8	3.2	1.2	3.5
Amortization	4.0	3.7	2.4	0.9	2.7
Interest	0.7	1.1	0.8	0.3	0.9
Memorandum items:					
External debt/GDP (in percent)	37.2	35.6	36.3	43.9	40.6
Debt-service ratio (in percent of exports of goods)	12.7	10.7	8.2	4.0	12.1
Average interest rate	0.3	0.4	0.3	0.1	0.3
Amortization rate 2/	6.4	5.8	3.6	1.5	3.9

Sources: Data provided by the Tongan authorities; and Fund staff estimates.

1/ Comprises government and government-guaranteed debt.

2/ The amount of repayment as percent of the total stock at the beginning of the year.

Pacific Island Countries: Status of Public Sector Reforms

Country	Progress with Privatization/ Corporatization 1/	Public Utilities 2/	Extent of Government and Private Sector Employment 3/	Government Salary (Percent of Government Spending) 4/	Size of Government (Percent of GDP) 4/	Tax Revenue Mobilization (Percent of GDP) 4/	Tax Diversification (Trade Tax as Percent of Total Tax Revenue) 4/
Fiji	Airports and a distiller were privatized in 1998. 30-40 percent of domestic telecommunication services and 15-30 percent of international telecommunication services to be offered to overseas buyer (1998). NATCO (vegetable cannery) offered for sale under privatization policy (1998).	Announced sale of 49 percent of shares in two telecommunications companies that are to be merged. Other public enterprises (water, electricity, ports) to be corporatized and eventually up to 45 percent shares sold privately. The Electricity Authority is considering many private proposals for power stations. Measures to restructure the authority are on hold, pending government policy decisions.	Government employment is about 40 percent of formal sector and 16 percent of total employment.	39 percent (1999)	30 percent (1999)	23 percent (1999)	30 percent (1998)
Kiribati	Economy is dominated by public sector commercial enterprises.	AsDB has proposed as part of a loan to upgrade the water and sewage facilities in Tarawa, and to restructure the Public Utilities Board. Government decision is pending.	70 percent of formal sector is in the public sector.	22 percent (1999)	125 percent (1999)	24 percent (1999)	
Marshall Islands		Telecommunications privatized pre-1996. Subsidies to GBEs have been reduced. Further privatization to be carried out under an AsDB program.	Share of public sector in formal sector was 43 percent in 1996, which was further reduced in 1997.	29 percent (1997)	62 percent (1997)	19 percent (1998)	
Micronesia		All utility companies are now corporatized.	Government employment was about 25 percent.	30 percent (1997)	75 percent (1997)	13 percent (1997)	
Palau			Government employs about 30 percent of the formal sector.	38 percent (1998)	55 percent (1998)	14 percent (1998)	29 percent (1998/99)

Country	Progress with Privatization/ Corporatization 1/	Public Utilities 2/	Extent of Government and Private Sector Employment 3/	Government Salary (Percent of Government Spending) 4/	Size of Government (Percent of GDP) 4/	Tax Revenue Mobilization (Percent of GDP) 4/	Tax Diversification (Trade Tax as Percent of Total Tax Revenue) 4/
Papua New Guinea	Some assets have been sold. Slow progress in corporatization of electricity and telecommunications authorities.	Corporatization is on the agenda but progress is very slow. An agreement was signed in 1997 for the government to buy electricity from a private producer.	Government employs about 35 percent of the workforce.	28 percent (1999)	26 percent (1999)	25 percent (1999)	24 percent (1999)
Samoa	Recent attempts have been disappointing. Since 1987, 22 public and departmental enterprises have been privatized or restructured.	An AsDB-financed plan calls for a complete overhaul of the power sector. No action has yet taken place.	Government employment was about 25 percent of formal sector.	28 percent (1997/98)	37 percent (1997/98)	23 percent (1997/98)	
Solomon Islands	Due to shortfalls from the logging industry, the government is being forced to sell assets. Postal services corporatized in December 1996. Progress in 1999/00 consisted of engagement of privatization advisers, liquidation of National Shipping, sale of major portion of government's shareholding in Solomon Telekom, and preparation of detailed plans to privatize other assets. However, major setbacks following the political crisis in mid-2000 include the closure of Solomon Islands Plantations Ltd. and Solomon Taiyo Ltd., both major enterprises with part ownership by the government.	Cabinet approval was obtained to bid out a management contract for Solomon Islands Electricity Authority. This is expected to be pursued in late 2000.	32 percent of employment is in the public sector.	21 percent (1999)	41 percent (1999)	21 percent (1999)	40 percent

Country	Progress with Privatization/ Corporatization 1/	Public Utilities 2/	Extent of Government and Private Sector Employment 3/	Government Salary (Percent of Government Spending) 4/	Size of Government (Percent of GDP) 4/	Tax Revenue Mobilization (Percent of GDP) 4/	Tax Diversification (Trade Tax as Percent of Total Tax Revenue) 4/
Tonga	There are no plans yet for privatization.	A private company is to build a replacement power station on Tongatapu. The government board operating the existing plant would become solely a distribution company on the islands.	40 percent of formal sector is with the government and 18 percent of total employment.	54 percent (WB) (1995/96)	41 percent (1999)	19 percent (1999)	69 percent (1997/98)
Vanuatu	Slow progress in divesting government-owned operations. Water and electricity operated by private monopolist under government contract. Civil Aviation was corporatized early 2000 and Postal Services in May 2000. The government is working on corporatization of Ports and Marine.	Water and electricity utilities are in the hands of private sector monopolies. Government is a major shareholder (40-year contract). United Electric Company (UNELCO) (water and electricity) guaranteed 12 percent return of assets (compared with 7-8 percent in Australia).	Currently, 30 percent is in the public sector. Government is committed to 10-15 percent reduction in public sector staffing under a Memorandum of Understanding signed with AsDB.	49 percent (1999)	28 percent (1999)	22 percent (1999)	41 percent (1999)

1/ AsDB, Pacific Studies Series, "Pursuing Economic Reform in the Pacific," Table 6.3.

2/ AsDB, Pacific Studies Series, "Pursuing Economic Reform in the Pacific," Table 6.1.

3/ AsDB, Pacific Studies Series, "Pursuing Economic Reform in the Pacific," Table 7.1; IMF Staff Report, Statistical Appendix, and Recent Economic Developments.

4/ IMF Staff Report, Statistical Appendix, and Recent Economic Developments.